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CHINA REPORT ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

QUESTIONS ON RESTRUCTURING OF ECONOMIC MECHANISM

HK161039 Beijing JINGJI GUANLI in Chinese No 10, 5 Oct 83 pp 16-21

[Article by Lin Zili [2651 1311 0500]: "Exploration Into Several Theoretical Questions on the Restructuring of the Economic Mechanism"]

[Text] Editor's note: After the 3d Plenary Session of the 11th CPC Central Committee, the trial points in the restructuring of the economic mechanism of our country have achieved notable results and the direction taken has been found generally correct. However, in the past few years, this work has been at somewhat of a standstill. One of the reasons is that the theoretical background for the restructuring of the economic mechanism still needs to be further probed and more uniformly understood. In order to promote the healthy development of the restructuring of the economic mechanism, recently the China Research Society on Restructuring of the Economic Mechanism and the Changzhou Municipal Research Society on Socialist Business Management jointly called a discussion meeting on the theories of restructuring the economic mechanism. Comrades taking part in the meeting, abiding by the policy of "letting a hundred flowers blossom and a hundred schools of thought contend," carried out thoroughgoing discussions on the existing controversial questions and raised many pertinent points. This magazine will publish extracts of the essays presented by six of the comrades including Lin Zili [2651 1311 0500] and Jiang Yiwei [5592 0001 5517] for reference by theoretical workers and practical workers in this field.

1. Concerning the Starting Point of the Basic Theories Underlying the Restructuring of the Economic Mechanism

The economic mechanism consists of production relations expressed in a concrete form and includes such phases as production, exchange, and distribution. Hence, theories on restructuring of the economic mechanism

necessarily relate to a series of basic problems of political economy concerning the relations of production. First is the theory on methodology.

For some considerable time, in the field of political economy, the system of ownership has been treated as referring to ownership of the means of production, that is, to whom the means of production belong. This type of ownership has been singled out from all the production relations, treated as the starting point, as the prerequisite and basis, and as a determinant of the various phases of production relations. It seems that by means of this form of ownership all the problems of the production relations can be explained. In reality, this is not the scientific method of Marxist political economy.

According to Marxist thinking, the implication of the ownership system in political economy is, basically speaking, the form of combination of the laborer and the material production conditions, that is to say, the form of control or disposition of labor (Marx once said that the system of ownership concerned the control of labor). It is manifested in the relations between the various phases such as production, distribution, and exchange (Marx also once said that the ownership system was the sum total of production relations). Divorced from the form of combination of the laborer and the material production relations, and divorced from production, exchange, and distribution, ownership or possession does not exist (meaning ownership or possession in production relations and not the relations between man and materials), nor will it be possible to know to "whom" the means of production belong. ("Whom" has reference to those who put into concrete form the production relations.) It is irrational to say that possession by the slave owner of the means of production is the prerequisite of slave labor because at times when there is no slave labor, basically a slave owner does not exist. Similarly, it is irrational to say that possession of the means of production by the capitalists, or that the means of production assuming the status of capital, constitutes the prerequisite for hired labor, because when there is no hired labor, the means of production cannot assume the status of capital and basically capitalists do not exist. It can thus be seen that the form of the system of ownership as a production relation is not the starting point, nor the prerequisite or basis, nor the determinant of the phases of production relations. On the contrary, it is the synthesis or the sum total of a series of relations. Marx said: "Division of work and all of Mr Pluton's other categories compositely form what is now termed the social relations of the ownership system. Outside of these relations, the ownership system of the capitalist class is only the fantasy of metaphysics or of the science of law." ("Collected Works of Marx and Engels," Vol 27, p 481)

This being the case, what is the prerequisite or basis? The answer is the form of combination of the laborer and the material production conditions. For example, in the case of hired labor, this category generally embraces, on the one side, the possessor of money and, on the other side, the owner of labor power who treats his own labor power as a commodity. Then follow the joining together of the two sides through transactions in a free market and the ensuing relations of capital exercising control over labor and the

exploitation of surplus value. All these relations are manifested in the various phases of production, exchange, and distribution. Possession of the means of production by certain private individuals does not explain hired labor and the series of capitalist relations which it elicits. Naturally, it is not possible to demarcate between the economic form of capitalism and that before capitalism, but hired labor does embrace the nature of capitalism. Just as Marx cited: "Aristotle: 'A slave owner is a slave owner not necessarily because of the actual purchase of slaves but by his use of slaves.'" (A capitalist is a capitalist not because of his ownership of capital, which provides him with the power of purchasing labor power, but by his use of the laborer, that is, hired laborer with wages, in the production process which proves him to be a capitalist.)" ("Das Kapital," translated text by Guo and Wang, Vol 3, p 438)

As for joint labor, this category embraces the joining together of laborers to work with the public means of production, and each laborer contributing his share of labor to the labor pool and receiving in return means of consumption commensurate with his labor contribution. Joint possession of the means of production does not explain joint labor and the series of socialist relations it determines and cannot be a demarcation point between socialism and other economic forms of public ownership. However, joint labor embraces the quality of socialism. Without the joining together of laborers, that is, without joint labor and without distribution according to work which it determines, there will be no form of socialist ownership or possession in production relations.

This is not tantamount to refuting the significance of the right of ownership. Treating ownership as a right is the legal generalization of the system of ownership as a production relation. Undoubtedly, it cannot be ambiguous in meaning but, clearly stated in the basic statutes of the state, it plays an important role in consolidating and developing existing production relations. Nevertheless, seen from the science of political economy, it is still the result, and not the starting point, the prerequisite, or the basis.

The science of political economy probes into the theoretical abstracts of realistic social economic relations. Forms of ownership or possession cannot become prerequisites or bases of abstract thought, because in the realm of reality they are not determinants of the various phases of production relations. This has been amply shown in our restructuring of the economic mechanism, particularly first of all, in the reforms in the countryside. In the restructuring of the economic mechanism in the countryside, what precisely took place was the combination of the laborer with the material production conditions, or rather, changing the concrete form of the control or disposition of labor. This is seen in that in the production process combination of unified operation with separate operation replaced singular and centralized operation, while, as for the form of distribution, linking remuneration to output replaced the system of evaluating work and allotting work points and distribution according to work points. This new type of cooperative economy featuring the combination of unified operation with separate operation and linking remuneration to output has become the

universal economic form in our countryside. This is a reform which covers an exceptionally wide field and embodies very penetrating contents. However, it is not determined by any change in the ownership of the means of production or in the right of ownership. The overall restructuring of the economic mechanism of our country, including restructuring of the industrial and commercial mechanisms, will also take the concrete form of reforming the combination of the laborer with the material production conditions or of reforming the mode of control of labor. It will remove the defects and evils found in the sectors of production, distribution, and exchange, and gradually create a concrete form of socialist production conforming to the national condition of our country and possessing special Chinese characteristics. This will give our socioeconomic activities full vitality and the capability of maintaining their balance, thus possessing a high degree of efficiency and capable of producing good results. Naturally, in similar manner, this restructuring will not take any change in the ownership of the means of production or in the ownership right as the prerequisite and basis.

In studying the restructuring of the economic mechanism of our country, we should make a concrete and meticulous examination of the actual practices in restructuring and of the many colorful economic forms appearing in the course of the actual practices. At the same time, we should make theoretical abstractions and work out a generalization. Only in this way can we weed out the nonessential and temporary phenomena and discover things of an essential and regular character and can we gradually formulate our theory on restructuring the economic mechanism.

The formulation and development of a theory on the restructuring of the economic mechanism has become increasingly urgent in actual practice in restructuring. As Comrade Deng Xiaoping pointed out: "At present, we need to sum up the experiences and work a little faster and better. We need to form an underlying principle for restructuring the economic mechanism and formulate a long-term plan. All these are important tasks. We cannot be hasty and cannot waste time. It is the wish of the party Central Committee that comrades doing practical work and theoretical work on the economic front work wholeheartedly with each other, cooperate with each other, learn from each other and make up each other's deficiencies, do investigation and research work, make repeated discussions, speak fewer empty words and within the current year suggest certain workable schemes and present a long-term plan for the consideration of the party Central Committee." ("Selected Works of Deng Xiaoping," p 211) The underlying principle for restructuring the economic mechanism mentioned herein is the theoretical pillar for the restructuring and can play a guiding role in actual practice.

2. Two Tiers of Joint Labor; Combination of Distribution According to Work With Commodity Production

Joint labor is the special and essential feature of socialist production relations.

Joint labor referred to in classical writings on scientific socialism is joint labor of a scale that runs through the whole society. Society as a whole is taken as an economic main body, that is to say, a joint body. Hence, this joint body directly controls labor and the national production conditions including the products. That is to say, each laborer contributes his labor to the production sector as a share of the whole social labor power, and, after the social center, that is, the joint body, has made various reservations or deductions in a proportionate manner so as to ensure the meeting of public needs, he takes it back in a commensurate quantity from the distribution center. The entire procedure may be summarized as an exchange of labor in equal quantity. In short, joint labor of a societywide scope and distribution according to work of a societywide scope, or, to put it in other words, the exchange of labor in equal quantity represents the basic special feature of a socialist economic stature conceived in the mind of creators of scientific socialism. In it, commodity production and exchange at equal value do not exist while value and the economic categories related to it such as money and prices will all vanish. In this way, mankind's economic relations are "simple and clear-cut."

Following the proletariat-led revolution scoring successive victories in a number of economically undeveloped countries, nearly all these countries have tried to set up socialist economic relations more or less akin to what has been mentioned above. Unfortunately, actual practice has shown that enforcing this kind of economic relations cannot solve well the problems of economic motive power or economic equilibrium. Wherein lies the reason? It may be said that the basic reason is that recognizing only joint labor of a societywide scope and distribution according to work on a societywide scope correspondingly squeezes out commodity production and commodity exchange. Our 30 years of practices in socialism have also shown that the joint labor and distribution according to work which we are practicing now must necessarily have differed from the discourses in classical writings. There must be something else besides joint labor and distribution according to work of a societywide scope and the exclusion of commodity and exchange. Let us turn to discussions on the laws governing the development of distribution according to work which manifests the growth of the productive force, and on the development of exchange.

Division of work is really of two categories. One category is division of work of a productive nature, that is to say, a demarcation of labor of different types or, it may be said, of different concrete forms. This category of division of work will not vanish in the future but will continue to develop. The other category is social division of work, that is to say, a demarcation of labor of different natures, or, it may be said, of different complex degrees or different degrees of skill and the nucleus is a distinction between mental labor and material labor. This is what Marx called "real division of work," or "old division of work." Development to the extreme of this category of division of work will result in its gradual disappearance.

In the beginning, exchange, an outcome of division of work, consisted mainly of exchange of labor of different kinds. Later, it increasingly became not only exchange of labor of different kinds but also exchange of labor of different natures or qualities while, following the development of division of work, a growing disparity develops in the material production conditions of the producers and becomes daily more apparent as a result of which exchange includes not only the exchange of labor of different kinds and of different natures but also exchange of labor of different material production conditions.

In exchange, labor of different kinds, of different natures, and of different material conditions are set against each other, that is to say, are engaged in abstraction, forming abstract-labor. Of them, abstraction of labor of different kinds is the first form of abstract-labor; abstraction of labor of different kinds and of different natures is the second form of abstract-labor; while abstraction of labor not only of different kinds and different natures but also of different material production conditions labor. This third form of abstract labor is society's requisite labor and embodies the concept of value. As I see it, demarcation of these three forms of labor exchange and labor abstraction carries an important meaning in explaining different exchange relations and in turn, in explaining different production relations and their concrete forms.

The development of abstract-labor from the first form to the third form denotes the procedure of the growth of commodity production from budding to growth and to maturity. On the other hand, the reversal of abstract-labor from the third form to the second form and then to the first form will denote the procedure whereby commodity production develops from a pure and integrated form to an impure and disintegrated form and eventually disappears. This will involve a prolonged historical process.

Following the continued development of division of work and the socialization of production, disparities in material production conditions and disparities in the quality of labor will gradually dwindle. The carrying out of joint labor will, to a definite degree, make the disparity of material production conditions lose its significance. This illustrates how commodity production begins its change from a pure and integrated form to an impure and disintegrated form. By the time the disparity in material production conditions has disappeared or has lost its significance, abstract-labor will revert from the third form to the second form. But so long as the second form of abstract-labor still exists, that is to say, the disparity in the quality of labor still exists, exchange of labor among mankind will still have to depend on a certain form of commodity exchange which is different from its original meaning. Only when disparities in material production conditions and in the quality of labor have both lost their significance and labor consumption can be directly measured by the time element will mankind's relations in production and distribution become simplified and clear-cut and will commodity production eventually disappear.

ence, as a form of production, commodity production is a stage that mankind cannot pass over in the development of social production. In contemporary social practice, due to the development of labor and division of work, it has still not been possible to make the relations between production and distribution simple and clear-cut to the extent that labor comes under the direct control of a social center. Therefore, be it joint labor or distribution according to work, neither is that simple. In our actual practice, joint labor is necessarily one of two tiers or stages.

The first tier envisages the joining together on a whole society basis, that is to say, combination on a whole society basis, of the laborer and the material production conditions. This is an overall combination and is manifested in that in the composite body the state, representing society, exercises control and disposition of the labor power of society and the material production conditions and undertakes conscious and planned direction and coordination of production of society and the distribution process.

The second tier is the direct combination of the laborer with material production conditions in individual production units. This is a combination on a partial basis. When a laborer joins a production unit, his labor power not only is a constituent part of the gross social labor power but also plays the role of a portion of the gross labor power of the production unit. His interests are not only united with the interests of the state or of society but also have close connection with the production units. As a relatively independent part of the social economic overall body, the production unit exercises control to a certain degree not only over the material production conditions of the unit but also over the labor which is combined with these material production conditions.

The two tiers of joint labor determine whether enterprises possess a relatively independent economic position. They not only differ from each other in the quality of their labor (including operation) but also possess vast differences from each other in the material production conditions. Between them, exchange of products must necessarily take place. This is exchange of labor as means of material goods and is exchange of commodities at equal value. That is to say, joint labor is not only labor which creates use value but is also labor which at the same time creates value. Hence, such categories of value as money, price, cost of production and profit continue to exist.

As determined by the two tiers of joint labor, the contemporary practice of distribution according to work is not entirely the same as what is conceived in classical writings. It cannot possess the stature of purity described in the classical writings but is only distribution according to work that is combined with the exchange of commodities. This being the case, "labor" mentioned here cannot be said to be without any relation with the requisite labor of society. The compensation for labor of a laborer is not only determined by the condition of his labor but is determined by the operation condition of the enterprise in which he works and also by the criteria whether or not consumption by the enterprise in

production has exceeded the average standard of the society and whether or not the products are in conformity with social demand. At the same time, it is also related, to a certain degree, to the material production conditions of the enterprise.

Commodity production by joint labor is different from commodity production by hired labor. First of all, it has banished the purchase and sale of labor power. Second, the production unit as producer of commodities, that is, the joint body under the second tier, possesses only a relatively independent status and their production and exchange are subjected to the conscious, planned control and allocation of the social overall economic body, that is, the joint body of the first tier. Third, because of the existence of the first tier of joint labor, differences in the income of the various production units resulting from disparities in their natural conditions, in amount of capital, and in the condition of the factory equipment, must be readjusted by the state. Hence, their income is related only to a certain extent to their material production conditions.

In short, if it is said that Marx conceived the basic economic feature of the first stage of communism as joint labor on a whole society basis and distribution according to work on a whole society basis, then in our contemporary practice the special features of socialist economy are the two tiers of joint labor and distribution according to work in combination with the exchange of commodities. If it is said that Marx conceived the basic special features of the economy of the first stage of communism as exchange of labor at equal quantity then in our contemporary practice the economic feature of socialism is the combination of the exchange of labor at equal quantity and exchange at equal value.

Hence, I believe that joint labor of the two tiers and distribution according to work which is combined with the exchange of commodities constitute the two basic theoretical problems on which we must make a further intensive study in our restructuring of the economic mechanism.

3. Revelations From the Restructuring of the Rural Economic Mechanism

In the past few years, following the universal adoption of the system of contracted responsibilities with payment linked to output, the restructuring of the rural economic mechanism has accumulated rather plentiful experiences. In particular, the experiences on restructuring of the internal mechanism of rural cooperative economy have been relatively complete and systematic. Although it is true that there is no comparison between a whole state-run economy and a rural cooperative economic unit in regard to the scale of operation, degree of socialization, and the complex nature of liaison with various sides, yet the experiences derived from the rural system of contracted responsibilities with payment linked to output have provided very significant revelations in probing into the form of liaison of the two tiers of joint labor in state-run economy.

"Combination of unified and separate management and two-tier operation" may be said to be the nucleus of the rural system of contracted

responsibilities with payment linked to output, and also the most basic experience. The tier of unification is unified operation in collective economy while the tier of separation is separate or divided operation of the contractors mainly with the household as the unit.

The two tiers of operation are joined together through contracted responsibilities with payment linked to output, that is, the system of contracted operation. Contracted operation is a new type of economic relation. The two parties in contracting are the two different tiers. The upper tier controls the principal and basic phases of the operation activities of the lower tier. On the part of the lower tier, that is, the contractor party, it possesses a relatively independent economic status: 1) It can carry out its operation activities in a relatively independent manner; circulation and turnover of its funds can be relatively independent and it has a rather independent control of labor; and 2) its income is directly related to its operation conditions; hence it has in its hold relatively independent economic interests.

According to the above analysis, it may be said: Contracted operation is a kind of relation established by means of a contract between different operation tiers. In these relations, the lower tier acts as a relatively independent operation entity, and, subject to the planned control and restriction of the higher tier of operation principal body, carries out relatively independent production and operation activities, undertakes the operation responsibilities, and receives appropriate economic interests. Relations of this kind can ensure, on the one hand, that the operation bodies possess the necessary internal motive power for the development of production, and, on the other hand, that the higher operation tier effects a balanced coordination of the entire economic activities.

In the restructuring of the rural economic mechanism, some comrades have looked at the system of contracted responsibilities with payment linked to output as similar to "going it alone." This kind of understanding obscures the demarcation line between the two-tier operation of the combination of unified management and separate management and pure and simple separate management, and is erroneous. Our restructuring of the whole economic mechanism, including restructuring in the countryside, does not aim at only separation without touching at all on unification. If it is thought that restructuring is the separation of power and interests and that the more thoroughgoing the restructuring the more thoroughgoing is the separation, then it does not conform with the essential regulation of contracted operation but is a departure from this regulation.

Between industry and agriculture, there are many differences. Industry, as a property or industrial system different from agriculture, has its own many special features. Judging from the current situation in our country, the degree of socialization in industrial production is much higher than that in agricultural production. The major portion of industry being state-run economy, joint labor on a whole society scale, that is, the first tier of joint labor, plays a much bigger role. This is also different from the situation in agriculture where the joining together of individual collective economies is only on a partial scale.

Because of these differences, restructuring of the industrial and commercial mechanisms is of necessity greatly different from that of agriculture. For example, the two tiers of operation in agriculture principally consist of unified management within the collective economy and divided or separate management among the contractors with households as the unit, whereas in industry and commerce, the two tiers refer to the state and the enterprises of the whole state-run economy. Moreover, the system of contracted responsibilities with payment linked to output in agriculture was first adopted internally in the individual collective economies. While it may have more or less some relations with the outside, because the degree of socialization is not high, restrictions or interferences from outside factors are after all relatively scanty. On the contrary, in the case of industry and commerce, because of their socialization, from the beginning restructuring will meet with a string of problems, such as wages, price, taxation, and so forth which have a bearing on the whole social economy.

In addition, there is another rather important point. Taxes and profits from industries in cities and towns constitute the main source of the revenues of the state and any changes therein have an important bearing on the situation as a whole. Therefore, restructuring of the industrial and commercial mechanisms is rather greatly restricted by the ability of the whole economy to stand the pressure of any changes. It is thus more closely related to the overall and long-term strategic objectives.

Although industry and commerce are different from agriculture as mentioned above, yet there are common points between them. In our industrial and commercial enterprises, on the one hand while they have reached a certain level in social division of work and cooperation and in liaison between production, supply and marketing, on the other hand not only is the degree of development of their socialization still not high but also there is much imbalance between the localities, departments, and trades and among the enterprises, great disparities still exist in their material production conditions as well as in labor power and management. The existence of the state alone as an economic main body cannot meet with this complex situation and there is need for the existence of a second tier of relatively independent operation entity. In other words, in state-run industrial and commercial enterprises and between the state and the enterprises, naturally there is a demand for the combination of unification and separation and for a two-tier management. Undoubtedly, the concrete form of contracted responsibilities with payment linked to output in agriculture cannot be put to concrete use here but so far as restructuring of industry and commerce is concerned the basic principle of liaison and combination between the two tiers of operation still carries an important significance.

However, it is not enough just to treat two-tier operation as meaning only a concrete form of distribution of profits between the state and the enterprises. Under the system of contracted responsibilities with payment linked to output in agriculture the form of liaison and combination between the two tiers of management is not confined only to distribution relations but is concerned, first, with the combination of unification and separation in production. Hence, if it holds true that in industrial and commercial

enterprises there also exist relations between the two tiers of management, then the relations should include, between the state and the enterprises, control of labor, control of funds (in value and in kind), purchase and marketing of raw materials and products, and so on. In other words, they should include all the relations pertaining to production, distribution and exchange. Hence, in regard to the planning system, labor and employment, supply of means of production, wages, price, taxation, credit and loans, and so on, the restructuring must be suited to the demands of the two tiers of labor combination. Without this accessory work keeping pace with the restructuring, restructuring of distribution cannot bring basic results and those results already obtained cannot be consolidated. This will urgently need a study from the theoretical standpoint of the general framework of the restructuring of the economic mechanism, including clarification of the form of reciprocal liaison of the two tiers in joint labor and also of the concrete form of the combination of distribution according to work and commodity production. For example, concerning questions such as the extent of the relative independence of the enterprises and of the control the state exercises over the enterprises, how the state and the enterprises allocate between them their respective functions, and so on, they all require a relatively clear designation and a theoretical principle of a relatively higher level. These all constitute important questions requiring solution by the basic theory on restructuring of the economic mechanism.

CSO: 4006/114

NATIONAL POLICY AND ISSUES

HANGZHOU SCALES DOWN CAPITAL CONSTRUCTION

Hangzhou ZHEJIANG RIBAO in Chinese 21 Jul 83 p 1

[Article by Wang Weifang [3768 0251 2455] and Huang Caijun [7806 6846 0689]: "Hangzhou Controls the Scope of Capital Construction Through the Reevaluation of Projects Under Construction"]

[Text] As a result of a full-scale review of capital construction projects, Hangzhou Municipality has decided to suspend and postpone a number of nonessential projects so that it can concentrate manpower, material and financial resources as a guarantee to bring the construction of essential projects to a successful conclusion. On 12 July, some 22 bureaus and districts throughout the city voluntarily announced their decisions to suspend and postpone nearly 30 projects, thus cutting this year's investment by nearly 5 million yuan.

Since the beginning of this year, Hangzhou Municipality has launched a total of 30 essential projects along with several hundred nonessential projects. Not only have these nonessential projects cost the state more than it could invest, but they have also set out to compete with essential projects for investment, "three categories of building materials," designers, constructors, and transportation facilities. In view of this, municipal departments concerned have moved swiftly to establish a leading group for reevaluation of capital construction projects so that forces can be organized to conduct a full-scale and thorough investigation of projects under construction and those on drawing boards, and to evolve a standard for suspending and postponing certain projects. Among those which have been suspended or postponed are projects which overlap each other; projects whose access to raw materials, power, fuel and market cannot be guaranteed upon their completion; projects for which no adequate capital is available; projects not yet ready for construction. For example, the Xinhua Silk Mill in Hangzhou originally planned to invest 520,000 yuan in the construction of a 20-loom plant occupying more than 2,000 square meters of land as part of an effort to expand the production of silk knit rugs. The municipal planning commission has ordered the mill to suspend this project as a result of an investigation by a department indicating a decline in the export of this product.

In the course of reevaluating capital construction projects, armed with documents issued by the Central Commission, provincial and municipal

authorities, bureaus of machinery and light industry, Xihu District, and other units have actively appealed to cadres of basic-level units and the masses for support for essential projects, calling on them to take "national interests" into consideration, to consider what is essential to the nation and the province as something essential to themselves so that they can consciously subordinate local interests to the overall interest and to work together to bring the construction of essential projects to a successful conclusion. So far, they have voluntarily announced decisions to suspend or postpone a dozen construction projects. After being notified by the municipal party committee of its decision to clean up capital construction projects, Yuhang, Xiaoshan, Jiande, and other counties have advised their respective construction, financial and taxation departments, and banks to examine one by one all projects under construction, according to the guidelines of the documents so that they can consciously exercise control over the size of investment in capital construction.

In active coordination with the work of cleaning up capital construction projects, the Hangzhou Municipal Development Bank has played a pivotal role in keeping investments flowing in the correct direction. It has tightened control over projects under construction by refusing to pay for those exceeding authorized expenditures and others violating the code of construction. From January to June this year, funds withheld by its accounting department alone from accounts of such unjustified expenditures on capital construction exceeded 500,000 yuan, thus contributing to the fund for essential construction projects.

9574

CSO: 4006/750

NATIONAL POLICY AND ISSUES

EXPLANATION OF TECHNOLOGICAL TRANSFORMATION, CAPITAL CONSTRUCTION

Hangzhou ZHEJIANG RIBAO in Chinese 22 Jul 83 p 2

[Zhejiang Provincial Economic Commission's reply to an inquiry from reader Qi Ko [0796 2047] about the meaning of technological transformation and capital construction]

[Text] An inquiry from reader Qi Ko: Dear editor-comrade: The national industrial and communications work conference suggested that capital construction be strictly controlled and technological transformation be expanded and revitalized. I consider this suggestion hardly applicable to practical work. Can you explain the difference between capital construction and technological transformation? How can you draw a clear line between the two in concrete terms?

The provincial economic commission's reply: Comrade Qi Ko: Capital construction is an expanded reproduction of fixed assets. It consists mainly of surveys and construction of housing and building projects and purchase and installation of machinery and equipment. There are mainly two categories of capital construction--productive construction and nonproductive construction. The former is essentially a material and technical foundation for expanding social production and for raising technical levels in production, while the latter is mainly aimed at improving the people's living standards. Technological transformation means replacing obsolete and backward equipment and technological processes with modern advanced equipment and technological processes or renovating them with compensatory funds in order to improve quality and increase output and profit at lower costs. Technological transformation and production are closely connected. In most cases, technological transformation can be realized through production.

However, technological transformation often consists of a specified number of building and installation projects, and is sometimes apt to become indistinguishable from capital construction. In real life, we often see some equipment replacement and innovative measures requiring a considerable amount of capital construction work. During the national industrial and communications work conference, a leading comrade of the State Council pointed out: The current economic situation is excellent. The key to the development of this excellent situation lies in controlling the scope of capital construction. Capital construction must be strictly controlled while

technological transformation should be properly expanded and revitalized. Under such circumstances, it appears more important than ever to draw a clear line between technological transformation and capital construction. To prevent capital construction from becoming part of technological transformation, the concerned department under the State Council has initially promulgated "a set of regulations governing the definition of technological transformation and capital construction." The general principle of distinguishing capital construction from technological transformation depends in large measure on the ratio of construction work to the entire project, and on whether the realization of technical innovation is aimed at expanding the reproduction of an existing fixed asset. To be more specific, one must comprehend the following three points well: First, the fund earmarked for earthwork in a technological project is generally not allowed to exceed 20 percent of its total expenditure, and its floor space is not allowed to exceed 30 percent of the total floor space occupied by the original plant; second, its main aim is to renovate equipment, technological processes and introduce new technology, or to spend money truly on improving quality, diversifying variety and enhancing technical progress; third, a technological transformation project with expenditure exceeding the aforementioned ceiling should be carried out according to the capital construction regulations. Any locality or enterprise using self-provided fund or loan to renovate its obsolete equipment according to the aforementioned three rules should be encouraged to do so, and this should not be viewed as an investment in adding new fixed assets over which control should be tightened.

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ECONOMIC MANAGEMENT

RESPONSIBILITY SYSTEM IN INDUSTRY DISCUSSED

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[Article by Jiang Yiwei [5592 0001 5517]: "Some Questions on the Economic Responsibility System in Industry"]

[Text] 1. About the Concept of the Industrial Economic Responsibility System

In order to have a clear understanding of the concept of the industrial economic responsibility system, it is necessary to trace back the emergence and development of this system. This system experienced a process of development. Enlightened by the popularization of agricultural economic responsibility, industry in China began to introduce the economic responsibility system in 1981. What is more important, the industrial economic responsibility system represents an objective need in the development of the restructuring of the industrial management mechanism.

Following the 3d Plenary Session of the 11th CPC Central Committee, the experiment on restructuring the industrial management mechanism has been quite outstanding in two aspects. First, the expansion of the powers of enterprises, and second, the introduction of regulation through the market mechanism. Practice has proved that this restructuring is correct, with quite considerable results. In 1981, the CPC Central Committee put forth the task of doing a still better job in readjustment work, taking the eight-character principle as the center of the readjustment and making restructuring subordinate to readjustment. This policy is no doubt correct but it has caused misunderstanding. Some people consequently thought that it is no longer necessary to carry out restructuring and as a result they stopped doing such work. In fact, leading comrades from the CPC Central Committee did not say that it is no longer necessary to carry out restructuring. Some leading comrades said very clearly at that time that the so-called making restructuring subordinate to readjustment means that some restructuring items can be carried out after the necessary conditions are created through readjustment; it means that restructuring can be carried out later; that the restructuring that is not contradictory to readjustment can be carried out in time and that the restructuring that is in the interest of readjustment, such as the reorganization, and therefore merging, of enterprises, must be accelerated. This view is based on analysis and the

principle of seeking truth from facts. But we have been used to working like a gust of wind and cutting with one knife. Therefore when it was suggested that restructuring must be subordinate to readjustment, we considered that it was no longer necessary to carry out restructuring. But the objective development of the reality of economy demanded that we can in no way stop restructuring. At the same time, some enterprises have failed to complete financial tasks and as a result they resorted to the method of "becoming responsible" in their bid to fulfill financial tasks. It is under this condition that the industrial economic responsibility system began to emerge. And since then, some advanced enterprises, such as the Shoudu Iron and Steel Company, perfected the industrial economic responsibility system in a way which combined responsibility with autonomy and interest and put the responsibility toward the state in the first place in carrying out the industrial economic responsibility system. During this time, in disseminating the economic responsibility system, newspapers seldom mentioned the question of expanding autonomy. But actually, the contents of the industrial economic responsibility system also include the necessity of continuously expanding and developing the decisionmaking powers of enterprises. To expand the decisionmaking powers of enterprises in no way means to put aside the question of responsibility. "Some Regulations on the Expansion of the Decisionmaking Powers of the Management of State-Owned Enterprises," approved by the State Council in 1979, defined the limit of the powers of the enterprises that are carrying out the experiment on the expansion and the obligations that have to be strictly implemented by the enterprises. Here obligations refers to responsibility and the nature of this responsibility is the combination of responsibility with powers and interest although this nature is not so explicit as the nature of the industrial economic responsibility system. This historical process proved that the industrial economic responsibility system is not merely copying what has been practiced in the agricultural economic responsibility system, nor has it emerged all of a sudden; it has developed in accordance with the law of the development of the restructuring of the industrial management mechanism.

And now we have advocated the business responsibility system and the contracted business responsibility system. What are all these systems after all? And what are their relations with the industrial economic responsibility system that was introduced 2 years ago? According to my view, the business responsibility system can be regarded as part of the economic responsibility system. It is because the economic responsibility system includes two aspects. First, it is aimed at solving the relations of responsibility, powers, and interest between the state and enterprises and second, it represents the responsibility system that is formed within enterprises and that is related to economy. These two aspects are related to each other; this is because without the responsibility system between the state and enterprises, there will be no foundation for the internal enterprise responsibility system. In general, the responsibility system is not a new thing. It was once introduced in the early days of liberation as a move to overcome the situation in which nobody was responsible, but it was a production and technical responsibility system. Daqing oilfield created a very outstanding example in this aspect by introducing a

positional responsibility system. The internal enterprise responsibility now being introduced is different from the production responsibility system of the past and the main difference is that the former is related to economic interest. And the premise of this economic responsibility system is that the responsibility, powers, and interest between the state and enterprises must first of all be defined and, following this measure, other measures must be taken to define the responsibility, powers, and interest of the enterprises themselves and, through the internal enterprise economic responsibility system, these two aspects are implemented among workshops, teams, and every position. If we regard the economic responsibility system as merely the restructuring of the management mechanism within enterprises themselves, as state management over enterprises, or as the restructuring of the industrial management mechanism, we are belittling or changing the significance of the industrial economic responsibility system. It is time now to put forth the question of the business responsibility system. The business responsibility system refers to the relations between the state and enterprises. It is not applicable within enterprises because the whole enterprise represents an economic entity; therefore, it is only in this entity that there exists the business responsibility system; it does not exist in workshops and teams of enterprises. Therefore there exists the economic responsibility system within enterprises, while the business responsibility system exists in enterprise external relations.

If the above-mentioned is practical, the several concepts can be explained in the following way. That is, the "industrial economic responsibility system" is a general concept and contains two aspects. One is "enterprise business responsibility," which refers to the relations between the state and enterprises and the other is "enterprise economic responsibility," which refers to the economic responsibility within enterprises. This concept is not only explicit but also in a position to link with the experiences gained during the previous stage.

The enterprise business responsibility system not only includes the question of distribution but also responsibility, powers, and interest. And the distribution may have various forms. But basically these forms include first, the implementation of contracted responsibility for both profits and losses; after paying tax to the state, the rest will be retained by the enterprises themselves and they have to be totally responsible for profits and losses; and second, the form that is different from contracted responsibility but with a certain responsibility for both profits and losses, and this form is in fact the profit-loss responsibility that was once put into practice in the past. Enterprise responsibility for profits and losses may be limited or unlimited. The contracted responsibility system refers to unlimited responsibility, while the form of the retention of the whole volume refers to limited responsibility. The method of retention in the past was not complete because it only referred to the relations on profits and excluded the question of how to share losses. Reasonably speaking, with the profit-loss responsibility system, the losses must also be shared by the state and enterprises. Companies in other countries include limited and unlimited companies; therefore it is advisable for our enterprises to introduce limited responsibility and unlimited responsibility in relation to

profit-loss responsibility. These two aspects belong to the business responsibility system. The unlimited responsibility for profits and losses after tax can be called the "business contracted responsibility system," which is only a form of business responsibility system.

2. The Theoretical Foundation for the Industrial Economic Responsibility System

The practice of the restructuring of mechanisms will create many new economic forms and it is for theoretical workers to summarize experiences in this aspect. Such theoretical summarization will provide a foundation for further restructuring and further tentative planning. What is the theoretical foundation for us to say that the economic responsibility system represents a new road for the modern economic mechanism of our country? There is argument on this question. The industrial economic responsibility system has developed step by step in the process of the expansion of the powers of the enterprises; but theoretically there are different views toward this question. The industrial economic responsibility system includes the enterprise business responsibility system and the enterprise economic responsibility system. The latter belongs to the management mechanism of the enterprises themselves and there is no argument on this matter. But there are differing views on the former. It is considered feasible to introduce various forms of business responsibility system under the socialist system but before we are able to do so, we have at least to be able to answer the following questions theoretically.

First, are enterprises relatively independent commodity producers? If the answer is no, the question of the business responsibility system will not arise.

In the past, we introduced a highly centralized management mechanism. Under this mechanism, the production tasks of enterprises were assigned by the state, goods and materials were transferred by the state, profits were handed over to the state, the products were distributed by the state, and the state was responsible for profits and losses. The enterprises were then in fact branches of the state administrative organs and they were responsible for the making of products and not commodities. They were only responsible for production and they did not have business responsibility.

Since the 3d Plenary Session of the 11th CPC Central Committee and under the guidance of the line of emancipating thinking and seeking truth from facts, we have made a major theoretical breakthrough in the way of affirming the necessity of developing commodity production and commodity exchange in a big way under the conditions of the socialist system.

The theoretical sector has explained at length the necessity for the socialist system to develop commodity production and commodity exchange. And this question can also be explained from the standpoint of the economic management mechanism.

In the past, our introduction of the highly centralized management mechanism was in fact groundless theoretically. Socialism has brought about public ownership and therefore it is possible for the state to put all economic activity under its unified leadership through planned management, so as to overcome the anarchy that is common in capitalist social production. And this measure must be affirmed. But the problem is that we confused unified leadership with centralized management. It is because we misunderstood, thinking that in order to unify the economy it is necessary for socialism to regard the whole country as an economic entity or as a "big enterprise." And consequently, the economy was under the direct management of the state and the state itself was responsible for profits and losses. Since the state was a "big enterprise," all economic departments and economic units across the country naturally became branches of this "enterprise." All these branches were carrying out their activities under the direction of the state and therefore they were independent neither in business nor in economic interest. We termed this economic structure the "state departmental theory"; that is to say, the state was the basic unit of production. And now we say that the method of "everybody eating from the same big pot" is undesirable. What is the main defect of this method? The defect is that this pot is too big. That is to say, to organize economic activities with the state as the basic unit means that the whole nation is eating from the same pot.

What is the size of an economic entity that is independent externally and unified internally? Generally speaking, it depends on the level of productivity. Practice proves that it will not do to depart from the conditions of productivity and to blindly seek what is called "big in size and collective in nature." Why is it that it would not work to have people's communes and production teams as production units in rural areas? It is because this form does not accord with the level of productivity. Now this form has been basically changed into households and this change is in line with productivity, and consequently rural areas have experienced rapid economic development. With regard to industry, it will not do either, under the current level of productivity, to take the state or localities as production units. We can only take enterprises as production units and we cannot blindly build big enterprises. If, during the reorganizing and merging of enterprises, we do not consider whether this move is in line with objective necessity and whether economic results can be improved following the merging and instead just blindly build big enterprises, the results will not be satisfactory.

In industrial management, the change from taking the state as the unit to taking enterprises as the units means to change the big pot into a small one. And it is only by changing this big pot that we will be able to eliminate the defects of the method of "everybody eating from the same big pot."

In order to turn enterprises into independent production units, with independent accounting and responsibility for profits and losses, it is necessary that enterprises carry out highly centralized management internally while, externally, they are producers of commodities and exchange their

commodities in the markets and carry out competition. The markets include state markets (where the state selectively purchases commodities) and free markets. These enterprises will decide their production according to the market situation and their own conditions so as to achieve the best results and to make profits. But there is also the risk of making wrong business decisions.

But as commodity producers, socialist enterprises are not totally independent. They carry out production and other business activities within the limits defined by state law and under state planned guidance. Therefore these enterprises can only be commodity producers with relative independence. While they have certain powers in carrying out their business, they must first of all be responsible to the state. The defining of these powers and obligations fact represents the enterprise business responsibility system that is characterized by combining responsibility with powers and interest.

The second question is with the introduction of the enterprise business responsibility system, who will bear this responsibility? To speak in an overall way, who will be responsible for the business responsibility system that combines responsibility with powers and interest? And to whom should the powers be entrusted? There should be definite answers to these questions. According to socialist principle, it is the whole staff of enterprises that should be responsible for the responsibility, powers, and interest. But this way, does it not mean that we are changing the enterprises with ownership by the whole people to enterprises with collective ownership? This question has been a focus of argument in the past few years.

Will it be possible for state industrial enterprises to "carry out collective business under ownership by the whole people"? This question is in fact related to the matter of how to treat the relations between ownership and powers in business management. Seen from the standpoint of historical experience, ownership can always be separated from powers in business. And the same ownership may have various business forms. When we were introducing the contracted responsibility system to households in rural areas, some comrades said that we were returning from collective ownership to individual ownership. Practice proved that the introduction of the business responsibility system in rural areas on the basis of households does in no way change the nature of the collective ownership. And in industry, to introduce the business responsibility system that is characterized by "collective business under ownership by the whole people" will in no way change the nature of enterprise ownership by the whole people.

We said that ownership can be separated from the powers of business. That is to say, these two aspects can be handled separately. But it does not mean that these two aspects are not related. In fact, ownership has a decisive role in controlling business powers. Under the capitalist system, the laborers do not possess the means of production. Therefore they cannot but hire out their labor to capital and they are compelled to work to earn a living. Thus, the "live" labor is under the control of the "dead" labor and

this situation is in fact the crux of the irrationality of the capitalist system. The purpose of socialism in introducing public ownership is to combine laborers with the means of production, to entrust them with the powers to control the means of production, to enable the "live" labor to be in control of the "dead" labor, and finally to display the initiative of laborers in production. The business powers of the enterprises with ownership by the whole people are in the hands of the state on behalf of all the laborers. Taken as a whole, this situation also represents the combination of laborers with the means of production and yet some of the laborers of enterprises are not in a position to control the means of production. These laborers are still under the situation in which the "dead" labor is in control of the "live" labor. Consequently it is difficult to mobilize well the initiative of these laborers and this situation is the vital and weak point in our introduction of the highly centralized management mechanism in the past. Therefore, the core of restructuring is to entrust the laborers who are carrying out production in the way of directly using the means of production with certain powers in production. Otherwise, laborers will remain in a passive position in the process of production.

The introduction of socialist public ownership has put an end to exploitation and the antagonistic relations between the exploiters and the exploited in production have vanished. But there exist unification and contradictions between the laborers as a whole and particular groups of laborers. And these relations are first of all shown in ownership. Take the situation of the enterprises with ownership by the whole people for example. The production funds of these enterprises are owned by the whole people; but the staff represents part of the whole people and therefore they also have their share in the ownership by the whole people. Following the restructuring of mechanisms in particular, enterprises have expanded their means of production by making use of production development funds and therefore the part created by workers in enterprises of the ownership of the means of production is even more apparent. Some comrades have suggested the concept of "relative ownership." They consider that state-owned enterprises are relatively independent because they have relative ownership. I am of the opinion that this view is by no means groundless. If we say that ownership is being in a position to control the powers in business, then the relatively independent powers in business are also in a relative position to control ownership. These two forms of "relativity" show that in the enterprises with ownership by the whole people, both ownership and business powers represent the unity of opposites between laborers as a whole and particular groups of laborers. It is a vital question, how to handle well the relations between these two aspects in our effort to restructure mechanisms.

Under the socialist system, there is no doubt that the relationship between the laborers as a whole and particular groups of laborers must be that the part is subordinate to the whole. That is why we said that enterprises are relatively independent commodity producers, that they can only have certain and limited decisionmaking powers under the state unified leadership. These enterprises are different from the enterprises with capitalist private ownership and the enterprises with collective ownership because the

production funds of the enterprises belong to the whole people and the state has great powers to control them on behalf of the whole people (laborers as a whole) so as to guarantee that the national economy will be able to develop in a planned way and proportionately and to coordinate the relations of interest of the state, enterprises, and individual workers.

The third question is the state leadership mechanism over enterprises and the enterprise internal leadership mechanism.

As the introduction of the business responsibility system has made it necessary to define who will bear the responsibility for the business, we must therefore consider the rational forms we are to use in forming the state leadership mechanism over enterprises and the enterprise internal leadership mechanism. In particular, with the strengthening of the system in future, enterprises will represent juridical persons legally, and therefore it is a matter of reality to solve, in the introduction of the business responsibility system, the question of who will bear the legal responsibility and obligations of the juridical persons.

It has been mentioned above that state enterprises may "carry out collective business under ownership by the whole people" and, under this condition, all the workers of enterprises must bear responsibility, both economically and legally. Therefore, within the spheres of enterprise obligations and autonomy that are defined by the state, the enterprise workers' congress should become the highest organ of the powers of enterprises and this organ will exercise the relatively independent management powers as entrusted by the state. At the same time, enterprises should have general representatives to whom the powers are entrusted by the congress and who will exercise legal responsibility on behalf of juridical persons. This is an undoubtedly logical conclusion. And yet all this is contradictory to the system of workers' congress and factory director responsibility under the leadership of CPC committees that is now being implemented in enterprises.

The workers' congress, which is the enterprise's highest organ of powers, and factory directors, who are general representatives of enterprises, organize workers in taking part in democratic management, with factory directors carrying out centralized command. This practice is in line not only with the objective needs of socialized mass production but also with the principle of socialist democratic centralism. It is rational theoretically and feasible practically. But before we are able to do this, we must first of all solve the following questions. First, how should socialist enterprises realize CPC leadership in the enterprise leadership mechanism and, second, how should the enterprises with ownership by the whole people realize state leadership over enterprises. These questions are being gradually resolved in practice.

All socialist undertakings must be put under CPC leadership because this measure is the necessary condition for upholding the socialist road. But the leadership may be exercised in various forms. CPC organizations in enterprises exercise their leadership over the enterprises in such matters as ideology, politics, and policies and this work represents an important

aspect of the CPC leadership over the enterprises. But such leadership is not totally demonstrated in the leadership of enterprise CPC committees. Leadership by higher management departments also represents CPC leadership. It is because the state and CPC leadership over enterprises is mainly carried out through the leadership of the higher management departments over enterprises. Factory directors (or managers) of enterprises have a dual responsibility. The directors or managers are entrusted by the state (through enterprise management organs) with managing enterprises and at the same time they are responsible to the workers' congress. And when there are contradictions between these two aspects, the higher management organs have the right to make decisions. In this way, the principle that the enterprises representing particular groups of laborers must be subordinate to the state, representing laborers as a whole, is realized. Enterprise CPC committees are CPC grassroots organizations and they must guarantee and supervise the implementation in enterprises of CPC principles and policies as well as state laws. When the decisions of enterprises are in line with CPC and state policies and laws, these committees will mobilize the whole CPC membership and lead all the workers so as to guarantee that the decisions are implemented; if enterprise decisions run counter to CPC and state policies and laws, they will carry out their supervision and will criticize or stop the implementation of the decisions. Differences in views between enterprise CPC committees and workers' congresses or factory directors must, in principle, be decided and resolved by higher management organs. Some regulations have been initially stipulated with regard to this principle in the existing and related rules and regulations that have already been promulgated. With this principle, the relations between CPC, administration, and enterprises will become more definite. Seen from the standpoint of the system of administrative leadership, the higher management organs are carrying out their leadership over enterprises on behalf of the state and they entrust factory directors with responsibility for the production and business management of enterprises. And within the enterprises themselves, according to the principle of democratic centralism, workers take part in democratic management under the centralized command of factory directors. The workers' congress is the highest organ of powers within enterprises but it must be subject to the administrative leadership of the higher management organs. Factory directors may be selected or recommended by the workers' congress but they must be approved and appointed by the higher management organs. The CPC exercises its leadership over enterprises mainly through the state organs and at the same time it also displays the roles of enterprise CPC organizations so as to guarantee and supervise the implementation of CPC principles and policies and state laws in enterprises. With this leadership mechanism, the CPC leadership over enterprises will be strengthened and there will be a clear demarcation between state administrative leadership and enterprise administrative leadership. And it is only in this way that we will be able to define legally the enterprise business responsibility system.

The fourth question is are there contradictions between the implementation of the business responsibility system and enterprise relatively independent autonomy in carrying out business, and the principle of taking planned economy as the center that is being carried out now?

With the implementation of the system of planned economy as the center and regulation by market mechanism as the supplement, state planning will include the two parts of mandatory planning and guidance planning. At the same time, the regulation by market mechanism that is excluded from the planning is also permitted. But it is still under study now as to how to put this theory into practice. And yet there is one point that can now be affirmed. That is to say, the enterprises with ownership by the whole people and collective enterprises have different responsibilities toward the state in the matter of production. It is the obligation of the enterprises with ownership by the whole people to be subject to state mandatory planning; but this obligation is conditional. If the state assigns profit quotas to the enterprises, coupled with production tasks that will result in losses, these enterprises can do nothing but follow the order. But with the business responsibility system that combines responsibility with powers and interest, the enterprises will have obligations toward the state and rights; on the other hand the state should also have rights and obligations toward the enterprises. According to planned management, the enterprises with ownership by the whole people have the obligation to meet state mandatory tasks in quality, quantity, and time as required. The management organs in control of enterprises on behalf of the state have the right to assign enterprises mandatory tasks; therefore these organs must have the obligation to guarantee the conditions that are required by the enterprises for fulfilling the tasks and to guarantee that these enterprises will make retention profits. Accordingly, it is better to change the mandatory planning into state orders. That is to say, state mandatory planning is passed down to production enterprises and circulation departments such as goods and materials departments and commercial departments; the enterprises sign contracts with goods and commercial departments with defined varieties of products, quality, and price and it is for them to jointly carry out the contracts and fulfill the tasks according to state mandates. But now the situation is that the state only passes down mandatory planning to the enterprises, with different production goals, different quotas of the goods supplied, and different profits. But there is no guarantee whether the circulation departments are ready to purchase the products. Such mandatory planning with rights but without responsibility of course will not work. In addition to carrying out mandatory planning, the enterprises must also have the right to arrange their own production on the basis of the mandatory planning. That is to say, they have the right to sell by themselves a small part of the products that are under state unified purchasing and selling. Otherwise, it means that the enterprises have no business rights, let alone business responsibility system. With regard to planned management, there is no contradiction in combining mandatory planning with guidance planning, persisting in the principle of planned regulation as the center and regulation by market mechanism as the supplement, entrusting the enterprises with the right to manage their own production, and implementing the business responsibility system and planned economy as the main.

The fifth question is with the introduction of the business responsibility system, should the enterprises have relatively independent economic interests?

Since the business responsibility system combines responsibility with powers and interest, there should be no problem in acknowledging that the enterprises should have relatively independent economic interest. The question is, what are enterprise economic interest? Following the expansion of enterprise autonomy, the enterprises have profit retention and, in general, part of such retained profits are considered as the interest of the enterprises. Seen from the standpoint of concept, this practice is vague. This is because in general, the retained profits are used in production development funds, collective welfare funds, and workers' awarding funds. Welfare funds and awarding funds belong to workers' interest. If enterprise interest includes workers' interest, the welfare funds and awarding funds can be considered as enterprise interest; but in this way we will miss the most important part of workers' interest, and this part is wages. If enterprise interest excludes workers' interest, then in retained profits only production development funds are considered as representing enterprise interest.

I am of the opinion that as a complete concept, the enterprise interest must include two aspects. First, "enterprise consumption funds" that include wages, bonus, welfare expenses (excluding the building of welfare facilities), and other items that can be turned into workers' individual consumption funds. Second, "enterprise construction funds" that are used in the production and construction of enterprises. As relatively independent economic entities, the enterprises should have relatively independent decisionmaking rights and consequently it is only natural for these enterprises to have relatively independent rights for making carrying out development of their own accord and these situations represent an important condition for enterprises to introduce the business responsibility system. The reasons are:

First, with the introduction of carrying out "collective business with ownership by the whole people," the state will hand down the means of production with ownership by the whole people to enterprises and workers that will be responsible for managing them. The purpose of this measure is to directly integrate laborers with the means of production so as to inspire the sense of responsibility of the broad masses of workers as masters of the country and to mobilize their initiative in production and business management. In order to attain greater economic results, it is imperative for the enterprises, in addition to displaying the labor initiative of workers, to spare no effort to improve their production technology. If the enterprises do not have the right to transform and expand the conditions of their production technology, these enterprises in fact do not have relatively independent rights in production and management.

Second, the integration between laborers and the [words indistinct] the former to have certain rights to control the latter, including the right to restructure the means of production. The relations of interest between the state and enterprises are in fact the manifestation of the relations of interest between laborers as a whole and particular groups of laborers. State accumulated funds are created by laborers and the greater part of these funds must be at the disposal of the state that is representing the laborers as a whole and the state can use them in key construction in a

planned way. But there is no reason to say that the particular groups of laborers who are directly creating the accumulation do not have the right partially to use the accumulation. Therefore it is totally rational to enable enterprises to retain a small part of the accumulation for their own use.

Third, one of our major failures in economic construction in the past is that we used all the accumulation in "extensively" expanding our reproduction and we neglected the restructuring and development of the existing enterprises. As a result, we have many old enterprises that are characterized by outdated equipment and backward technology; some enterprises are even carrying out their production in factory buildings that may easily collapse. This problem represents a vital reason for the slow development of our economy. Over the past few years, we have at last come to understand the necessity of putting technical reform of enterprises into an important position in development strategy. But there is no definite policy yet as to where the funds that are needed for technical reform should come from. Historical facts prove that if the enterprises do not rely on their own development in carrying out restructuring and instead follow the old road of relying on funds allocated by the state, such restructuring will not end in good economic results. Such historical lessons must in no way be repeated.

3. About "Two-Tier Distribution According to Labor"

The "enterprise consumption funds" belong to the sphere of the interest of workers; they must therefore be included in enterprise interest so that the interest of workers will be integrated with the results of enterprise production and management. In carrying out planned economy, a socialist country must control the proportion between accumulation and consumption, but at the same time effort must be made so that the consumption funds of enterprises will float and accord with the results of enterprise production and management. This is a matter that has to be resolved as quickly as possible. According to my view, basically speaking, enterprise consumption funds must float and accord with the volume of the net output value created by enterprises. Net output value refers to the value that is newly created by workers. And according to the principle of more gain for more labor and less gain for less labor, enterprises may set aside a bigger volume of consumption funds when they are able to achieve a bigger net output value. Theoretically, this method is feasible. The proportion of consumption funds in net output value must be subordinate to the proportion between accumulation and consumption which is under the control of the state. Enterprises are entitled to retain a certain total volume of consumption funds from their profits according to the proportion that is defined by the state. But the state need not interfere with the distribution of the funds within the enterprises, such as the amount for welfare expenses and the amount for distribution according to labor. This is the "two-tier distribution according to labor" I have advocated.

The above-mentioned two kinds of funds belong to enterprise interest. In principle, the volume of enterprise interest must be related to the volume

of the results of the production and management of enterprises. But what has been mentioned above only represents a general principle. It needs further study as to how to concretize this principle into the form and method of distribution. In future, following the introduction of the method substituting taxes for the delivery of profits and charges on capital, it will become a very important subject for us to study how to enable enterprise after-tax profits to accord with the labor that is provided to society by the enterprises.

Enterprises are the basic units of the national economy and they represent a cell of the organic entity of this economy. Enterprises are also the direct commanders of productivity and the concrete manifestation of social relations of production. Therefore, in building a new-type socialist economic mechanism, we cannot but first of all define the form of this cell. Mechanisms are restructured macroscopically and microscopically. But we must start the restructuring microscopically and on this basis set up a series of management forms and methods macroscopically. This view is the so-called "enterprise departmental theory" I have advocated. To advocate that enterprises study their own management mechanism does not mean that it is not necessary to consider macroscopic management and control. But when we ask which comes first, the chicken or the egg, we cannot but start this work from dissecting the cell. Over the past few years, the restructuring of mechanisms in rural areas has made considerable achievements and the major reason is that we have formed a management responsibility system on the basis of households, coupled with the related policies and management measures. The restructuring of the industrial management mechanism has developed from the expansion of the decisionmaking powers of enterprises to the introduction of the economic responsibility system and then to the proposal for the business responsibility system. No matter what our subjective intention is, the reality of economic life time and again demands that we answer the question about the relations between enterprises and the state. That is to say, we must define enterprise obligations toward the state and enterprise rights. This question seems microscopic. But solving this question correctly demands that we solve a series of problems concerning macroscopic management principles and concrete measures. Therefore it can be affirmed that if we are able to introduce in an overall way industrial economic responsibility that combines responsibility with powers and interest, we will no doubt be able to basically restructure the industrial management mechanism of our country.

CSO: 4006/115

FINANCE AND BANKING

TAX INSPECTION SUCCEEDING IN UNCOVERING EVASION

HK091045 Beijing BEIJING RIBAO in Chinese 3 Nov 83 p 1

[Report by Cai Fucaho [5591 6384 2600]: "Beijing Achieves Initial Results in Tax Inspection"]

[Text] Initial results have been achieved at a major tax inspection organized by the municipal tax departments. According to the preliminary statistics of 10 urban and suburban districts, up to 29 October, a total of 11.45 million yuan of tax evasion had been ascertained. Efforts are being made to collect this tax and to turn it over to the state treasury.

On 24 August this year, the State Council issued an "Emergency Notice on Paying Close Attention to Increasing Revenue and Cutting Down Expenses To Ensure a Basic Balance Between Revenue and Expenditure This Year," calling on all localities to carry out a major financial and tax inspection in the second half of this year. In an effort to ensure the implementation of this emergency notice, the tax departments of the municipality and the various districts and counties respectively set up a tax inspection leading group and an administrative body. While mobilizing taxpaying units to carry out a self-inspection, they also concentrated more than 800 tax collectors from the urban and suburban districts, who were formed into more than 200 teams, to carry out inspections at about 1,000 key state and collective units. These inspection personnel conscientiously implemented the tax policy and persisted in acting according to the regulations and calculating taxes according to the tax rates. Up to now, more than 730 taxpaying units have been found to have problems of tax evasion, which account for 73 percent of the total units under inspection.

The tax inspection teams have inspected the tax payment of some enterprises under the municipal authorities and some key industries under the district and county authorities. From January to September this year, the Beijing branch office of the China Salt Corporation purchased from the producing areas a certain quantity of salt at a low price but sold it at the state listed price, thus augmenting its income by 1,059,000 yuan. After discovering this, the inspection team pointed out that this income should be taxed according to the regulations. At present, the company has paid all the tax levied on the surplus income of 1,059,000 yuan. From January 1982 to September 1983, the three repair and construction teams of Jingshan, Hepingli, and Beixingqiao in Dongcheng District indiscriminately issued bonuses, overtime pay, and other allowances and put these expenses down as costs. The inspection team found out that the three units had evaded payment of income tax totaling 106.3 yuan [as published].

The problems of tax evasion by some units of the central government in Beijing have also been dealt with during the inspection. The Beijing computing center of the Ministry of Geology and Minerals is an independent accounting unit. Last year, the tax department found out that the unit had not paid taxes for the income deriving from its computing business within the department. But the unit found various pretexts to postpone payment of the tax. Recently, in accordance with the relevant regulations, the inspection team deducted through the bank the 147,000 yuan of tax payment, which the unit had delayed paying for a long time, and turned it over to the state treasury. This year, without prior approval, the Chinese Film Instrument Corporation listed as extrabusiness expenses 1,259,000 yuan of fixed assets which had not been sorted out and reported as worthless, thus reducing the income that should be taxed and evading income tax amounting to 674,000 yuan. After being found out in the current inspection, the company paid the tax which had been evaded.

CSO: 4006/121

SOME PROBLEMS CONCERNING EFFECTIVE CONTROL OF CIRCULATING FUNDS

Beijing ZHONGGUO JINTONG [CHINA'S BANKING] in Chinese No 7, 4 Jul 83 pp 2-5

[Article by Wang Jie [3769 0267]: "On Solving Some Problems Relating to 'Eating Out of the Common Pot' of Circulating Funds"]

[Text] At the present, various sectors of the national economy are undergoing a guided and step-by-step restructuring, and restructuring on various fronts has already spread to various aspects of financial work. The banks that are the general centers of capital activity for the society as a whole must devote their attention to restructuring and activating finance and to raising the use effects of funds in order to adapt to and catch up with the new conditions of restructuring and in order to be promoters of progress in restructuring. In this article, I shall discuss some opinions on solving the problem of "eating from the common pot" of circulating funds.

I

Circulating funds are funds that reflect the constant circulation and turnover use in commodity movement in the course of business activity of enterprises and are the essential for an enterprise to carry out normal production and circulation. Their basic requirement is that compensation for and increase in value be obtained in the course of continuous circulation and turnover. When circulating funds can be returned on schedule, this means that production and circulation take place smoothly. Accelerated turnover of funds indicates a curtailment to a definite extent in the process of social reproduction. For this reason, whether or not accelerated turnover of funds can be promoted is a major indicator for judging whether the fund distribution and management systems are advanced or backward. The predominant problems that exist at present in the use of circulating funds in industrial and commercial enterprises are a large amount of use, slow turnover and poor results. To take 1982 as an example, a single turnover of funds in the close to 5,000 industrial production enterprises involved with loans in Shandong Province is 112.15 days, 17.5 days slower than the normal and rational turnover level and with more than 1.3 billion yuan in circulating funds involved. This problem was created primarily under the prolonged influence of the mistakes of the "left," which managed affairs without regard to objective economic laws, simply seeking output value and speed while neglecting economic results. However, the "supply system," the

"common pot," of the circulating fund management system is also one of the major causes. This is manifested in a concentrated way in the following three aspects.

First, there is no scientific limit on the use of circulating funds by enterprises, with more or lesser amounts being used indiscriminately. Circulating funds are supplied and managed by financial organs and banks in accordance with the requirements of fund quota management. Within the quota, financial organs receive, distribute, supervise and check without compensation. When the quota is exceeded, the banks investigate loans and supervise use. The advantage of carrying out this method is that there are distinct limits on requirements. However, for various causes, the financial sectors may not be able to appraise and set quotas on time so that there is often a period of many years during which there is no change, with a state of "active production" and "rigid quotas" developing and with enterprises in actuality having to rely primarily on bank loans for circulating funds. Because quotas become a mere formality, the banks lose sight of rational limits in handling loans. This inevitably results in a situation in which money must be given when it is needed and of having to respond to a request. Many enterprises produce, are overstocked and borrow money all at the same time, with more and more funds being used. The entire fixed assets for 1982 for the electronics industry system of Welfang City amounted to 38.68 million yuan. Of this, more than 43 percent, or a total of 16.1 million yuan, belonged to the category of irrational fund use. Every year, more than 1.55 million yuan must be paid to the banks in interest. This is equivalent to the total profit of the system for the entire year. For the province as a whole, this is not an isolated phenomenon.

Second, there is no rigorous check on turnover of circulating funds by enterprises so that turnover may be rapid or slow. Under conditions of production of commodities and exchange of commodities, economic movement is integration of use value movement and value movement. In obtaining economic results, a very important aspect is determined by the circulation and turnover of funds. However, because people have lacked a clearheaded understanding of this problem for many years, they did not see that fund movement includes the two aspects of the material modality and the value modality and that savings in manpower and natural resources are inevitably manifested simultaneously as savings in funds. As a result, they incorrectly believed that whether turnover was somewhat faster or somewhat slower was not a matter to be taken seriously as long as production increased. Under ideological guidance of this kind, many units devoted themselves one-sidedly to seeking output value and speed, without giving attention to management and saving of funds. The index of circulating fund turnover has not yet assumed its proper position among the index systems for assessing the national economy. As a result, waste of funds is becoming more and more serious. During the period of the Fifth 5-Year Plan, there was an increase in production of 37 percent among industrial production enterprises in Shandong Province involved with loans, while the funds used increased 41.8 percent. In 1981, production increased only 1.6 percent, while fund use increased 4.62 percent, with the turnover of funds slowing to 4.61 days. In 1982, it was 0.08 days slower as compared to 1981. This state of the degree

of increase in funds greatly exceeding the degree of increase in production is extremely abnormal.

Third, there is no clear-cut responsibility for the use of circulating funds by enterprises, with no regard for whether results are good or bad. Under a mode of fund management characterized by a supply system, the economic responsibilities for which an enterprise should assume responsibility are divorced from the corresponding economic benefits and the economic results that should be realized. This affects expansion of production by the enterprise and improvement in enthusiasm and initiative in economic management. For many years, there have been no rewards for enterprises that save on funds and no punishments for those that waste funds, with deficits and loss of property being canceled after verification or compensated for by the financial organs. If management is poor, the excess funds that are used are made up for by the banks. Thus, it is all the same regardless of whether management is good or bad. This has resulted in some enterprises not paying attention to economic accounting and not concerning themselves with the results of fund use. Because of poor economic management, the Jinan Second Steel Plant experienced continuous losses over the 12-year period from 1970 to 1982, with losses amounting to 72 million yuan and with all of their fixed assets being lost. With losses as severe as this, the bank still had to extend a loan. At the end of last year, the total amount of the loan amounted to 5.2 million yuan. The strange thing is that the department responsible for the enterprise issued the 1.45 million decrease in the losses of that plant to the enterprise, with each person getting an average sum equal to 260 yuan, with more than half the profit of 14 million yuan being retained by the people of the Jinan Steel Plant. Under conditions such as this in which losses are reasonable and advantageous, how could the enterprise and the staff and workers concern themselves with the results of fund use? In addition, the financial organ, bank and enterprise departments that are responsible for managing circulating funds do not have a clear-cut responsibility system. The financial organs deal only with deciding on loans and not with their use, the banks only issue the loans but do not assume responsibility for the risk and enterprise officials only plan production assignments and do not check on fund use. No one has the responsibility when waste and losses of funds occur. According to statistics state-managed industrial enterprises with credit relationships in Shandong Province in 1982 had about 1 billion yuan in excess inventories and commodities. It is estimated that more than 300 million yuan will be required to make up the loss. This amounts to 4.1 percent of the total circulating funds. Such an immense loss of funds is directly related to the fact there is no rigorous responsibility system for fund management.

The aforementioned malpractices clearly indicate that the existing system of the "supply system" and the "common pot" in management of circulating funds must be reformed. If this problem is not solved, it will be fundamentally impossible to change the state of "excess, slow and poor" use of circulating funds.

The circulating fund management system is a component of the national economy management system and its restructuring should proceed in step with the restructuring of the economic management system as a whole. The focus of attention and starting point of restructuring, with the prerequisite of vigorous expansion of socialist commodity production and commodity exchange, must be on bringing such economic levers as bank credit, the interest rate and account clearing fully into play, on promoting saving on fund use by enterprises, on accelerating fund turnover, on increasing economic results and on adapting to the needs for diversified economic constituents, for diversified economic forms and for diversified channels of circulation. The emphases of restructuring should be establishing a sound circulating fund management responsibility system and on solving the problem of "eating from the common pot." Our tentative ideas are as follows.

First, the enterprise circulating fund system should be managed by the banks using economic means. The basic attributes of floating funds lie in their turnover property. Its value should be increased during turnover on the basis of the requirements of social reproduction. Marx, in analyzing the origin of surplus value, pointed out that appreciation of capital occurs in the process of production. Under socialist conditions, appreciation of funds also occurs in the process of production and is the result of workers using the materials of production in performing labor for the society. For this reason, an advanced fund management system should be suited to the level of development of the productive forces and can arouse the enthusiasm of the workers to create material wealth for the society. However, with the method of supply of floating funds without compensation, there is no need to repay it and stress is not placed on turnover. If the leaders of an enterprise cannot effectively bring its "vitality" into play. On the other hand, if a change is made to supplying circulating funds through the means of credit, the enterprise must not only be required to pay back the principal on schedule but must also pay interest. The banks can use the levers of credit and the interest rate to regulate funds and supervise their use in a flexible way and to stimulate acceleration in the turnover of funds. This method of using economic means to manage circulating funds accords with the requirement for a method based on objective economic laws and should be one of the directions for restructuring the fund management system. Most recently, the leadership of the State Council decided to change to unified control of enterprise circulating funds by the banks. This is an important reform in circulating fund management and is an important measure for solving the problem of "eating out of the common pot" that should be implemented in a firm way.

Second, we should implement a system of support responsibility for circulating funds. Industrial and commercial enterprises are relatively independent socialist economic units and should have a right to a relative degree of autonomy in their use of funds. At the same time, they should establish strict responsibility systems for the management and use of funds and enterprises should bring their initiative fully into play and bring about a fundamental change in the method of "eating from the common pot." On

a basis of unified management of circulating funds by the banks, a "support responsibility system for normally used amounts of circulating funds" should be implemented for industrial and commercial enterprises. This involves determining the frequency of fund turnover for this year on the basis of the actual state of turnover of circulating funds among enterprises last year and of the unified requirements for acceleration of turnover by the state, after which a determination is made of a rational amount of funds to be used in reference to the sales plan of the enterprise, and a contract is drawn up and full responsibility for its application is assumed. If special circumstances arise that require breaking through the rational fund requirements of the fund support amount, this can be solved by providing a temporary loan. The banks should have strict control over temporary loans. A loan should be checked point by point and increased interest should be received in order to stimulate the enterprise into making careful calculations and strict budgeting in order to conserve funds. The annual fund support quota can be broken down into seasonal quotas in order to facilitate strengthening management and checking. The formula for calculating the fund support quota is as follows:

$$\begin{array}{lcl} \text{Total amount of fund} & & \text{total amount of annual (seasonal)} \\ \text{support of an enterprise} & = & \frac{\text{planned sales income}}{\text{planned frequency of turnover of}} \\ & & \text{circulating funds} \end{array}$$

In managing support funds, one determination should be made for the year, the plan should be made in stages, the existing loan should be kept on the ledger and turnover should be used. Within the amount of the support, the bank will not again make point-by-point examinations but will only control the total amount of the loan and its turnover rate.

Third, loan interest should be directly coupled with the economic results of an enterprise. The interest rate is a major economic lever. One aspect of restructuring the credit fund management system is to set loan interest rates correctly. The quality of fund use should be linked closely to the material interests of the enterprise and its staff and workers in order to arouse the initiative of those who use the money in managing the money. The lever of the interest rate can be used to stimulate an enterprise to expand production and circulation, to exploit the potential of its funds and to accelerate the turnover of funds.

As Marx has pointed out, "Interest is nothing more than a special name for and a special item of a portion of profit" (*Das Kapital*, Vol 3, p 179). He also demonstrated that, under the capitalist mode of production, enterprises for the most part use loan capital to pay their interest. This does not contribute to their costs but rather is taken from their total profit. This principle, which was set forth by Marx, is also applicable under the conditions in our nation in which currency credit relationships are still in existence. Once the system has been restructured, the distribution relationship between the state and enterprises will be fixed by means of the mode of taxation, with the profit after taxes reverting to the

enterprise for allocation. For this reason, we should gradually change from the method of including interest as a cost, which is divorced from the economic interests of an enterprise, and have all of the interest paid from the profits of the enterprise in order to encourage the enterprise to strive to increase income and cut back on expenditures and to make full use of interest rates to save on use of funds, to accelerate turnover of funds and to guide funds toward a lever action. Because the objective conditions do not yet exist at present, we can first implement floating interest rates on a comprehensive basis. When an enterprise is using a large amount of funds because of slow turnover, the interest collected can be increased 20 percent, and, when funds are being conserved by accelerating turnover, the interest collected can be decreased 20 percent. The decreased or increased interest is paid into or paid from the funds of the enterprise. Overstocked materials and commodities can be removed when the amount of support is being checked and decided and an independent account can be established and penalty interest can be collected.

Fourth, a loan management system should be established and perfected in the banking sector. A socialist bank is an institution that deals with currency and credit on a relatively independent basis. At the same time that a fund support and maintenance responsibility system is implemented for industrial and commercial enterprises, establishing and perfecting a loan management system in the banks is also a way of increasing the results of use of funds that cannot be neglected. A responsibility system whereby the banks assume the risk for loans should be established centering around accelerating turnover of funds and raising economic results. Within the sphere of national economic activity, the banks belong to the distribution link and have clear-cut operational targets and operational objectives. They should assume corresponding economic responsibilities in accordance with the principles of socialist management and administration and in accordance with the requirements of objective economic laws. Banks should assume definite economic responsibility for loans that they have extended that have resulted in losses because of lack of rigor in examining the loan or because of errors in work. A system whereby the president of the bank assumes responsibility should be established under the collective guidance of a leading party group or of a party committee to link the quality of fund management and administration with responsibility system within the banks for evaluating rewards and punishments, to stimulate the initiative of cadres and staff in doing a good job of managing credit funds, to remain determined in putting an end to such incorrect practices involving excess issuing of funds as "making loans on the basis of human feeling," "making loans on the basis of personal relationships" and "making loans for special considerations" and to assure obtaining maximum economic results in the course of normal circulation and turnover of circulating funds.

III

Unified management of circulating funds by banks and implementation fund support and maintenance responsibility systems by enterprises are demands in accord with restructuring of the economic system. This method is closely

linked with the rate of turnover of circulating funds and is advantageous for promoting economizing on the use of funds by enterprises. There are some comrades who believe that implementing a fund support and maintenance system and guaranteeing all of the normally used funds of enterprises to enterprises would be an even bigger "pot" than the "common pot" of the past. From a formal standpoint, there does not seem to be any distinction between the former and the latter. In actuality, this is not the case. Under the method of fund distribution of the supply system in the past, the enterprise had the authority to allocate funds. However, there was no benefit in using small amounts and there was no responsibility for using large amounts, with responsibility, authority and benefits being separated from each other. Therefore, no concern was taken for the economic results of the use of funds. Implementing a fund support and maintenance system confers a comparatively greater authority for use of funds on enterprises. Further, under the premise of assuming economic responsibility and enjoying definite economic results, the results of management of enterprises are more closely linked with the economic results of individual staff and workers and integration of responsibility, authority and benefits is achieved. Collective powers and separate powers, planning and flexibility and administrative methods and economic means are organically linked. This basically overcomes the corrupt practice in management of circulating funds of "eating from a common pot" and creates the conditions for increasing the results of funds. Therefore, we can say that implementing the fund support and maintenance system is a negation of the fund "supply system" and "common pot" of the past and is advantageous in stimulating enterprises to improve administration and management and to lower the level of fund use so that even greater accumulation can be made for the nation and so that even greater material wealth can be created for society.

Implementing the fund support and maintenance system is also advantageous in strengthening the regulatory and supervisory functions of the banks in respect to the economy. Under socialist conditions, credit is an important lever of state management of the economy. As Comrade Hu Yaobang pointed out in his report to the 12th Plenum, regardless of whether directed planning or guided planning is being implemented, every effort must be made to meet objective conditions, to conduct regular studies of changes in market supply and demand conditions, to make conscious use of the law of value and to use such economic levers as price, tax revenues and credit to guide enterprises in implementing the requirements of state planning. If a fund supply and maintenance responsibility system is implemented for enterprises in this way and the banks do not check loans point by point, would this not weaken the banks' regulatory and supervisory functions on the economy? We believe that it will not only not weaken it, but, that, on the contrary, implementing a fund support and maintenance responsibility system can result in credit personnel breaking away from the tedious routine of point-by-point checking of loans and in concentrating their energies on intensifying investigation and research, doing a good job of analyzing economic activity, providing timely economic information and coordinating production and sales relationships. In this way, the regulatory and supervisory functions of the banks on the economy can be brought even more effectively into play. At the same

time, the key to implementing a fund supply and maintenance responsibility system lies in determining rational amounts of fund use on the basis of the state of sales of enterprises. Under conditions of normal production management, an enterprise can implement fund supply and maintenance planning simply by striving to improve quality, increase the varieties of products, see to it that products meet social demand and accelerate the rate of transformation of commodities to currency. If a product becomes overstocked because it does not meet sales needs, this will inevitably be manifested in capital use, with breaking through of the amount of fund supply and maintenance occurring, on the one hand, and with slowing of the rate of turnover of funds occurring, on the other hand. Under conditions of this kind, the banks can use control of loans and collecting penalty interest to stimulate enterprises to set production on the basis of sales, to set purchases on the basis of sales, to increase economic results and to realize the demands of state planning. In implementing a fund support and maintenance responsibility system, the questions of whether or not to make a loan, of whether to lend a large or small amount and of the level of interest are closely linked to effective production and sales of products by an enterprise. When banks hold to the two principles of "selecting the superior and supporting them" and of "setting loans on the basis of sales" and use the two levers of credit and interest rates simultaneously and contrast and check results for the enterprise and results for the bank and reward the superior and penalize the inferior, this is advantageous to doing an overall good job of managing funds and making active use of them and of fully bringing into play the banks' economic levers of "expanding the economy and making innovations in technology."

10019

CSO: 4006/719

FINANCE AND BANKING

BRIEFS

TIANJIN URBAN SAVINGS DEPOSITS--In the first 8 months of this year, the total savings deposits of urban people in Tianjin Municipality reached 1,253 million yuan. Some 4,560,000 households had bank savings. According to statistics, from 1979 to 1983, the municipality increased its urban savings deposits by over 900 million yuan, a 2.5-fold increase over that of the 30 years before 1978. Of this, in the first 8 months of 1983, the urban savings deposits of the municipality increased over 230 million yuan, setting a record. [Excerpts] [Tianjin TIANJIN RIBAO in Chinese 4 Oct 83 p 1 SK]

GANSU FINANCIAL CHECKUP--Gansu Province achieved good results in financial and tax checkup. By 18 October, some 10 million yuan of illegal gains were uncovered. A sample checkup on six prefectures and cities shows that 35 percent of enterprises have evaded taxes totaling 2.6 million yuan. The provincial government decided to send personnel to key departments and bureaus to help carry out this work which will be completed by the end of November. [Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 7 Nov 83 SK]

CSO: 4006/121

MINERAL RESOURCES

BRIEFS

HEILONGJIANG GOLD MINING--As of 24 October, Da Hingan Ling Prefecture, Heilongjiang Province, had sold 271 liang of gold to the state, overfulfilling the state plan by 33.5 percent. [Text] [SK091032 Harbin HEILONGJIANG RIBAO in Chinese 27 Oct 83 p 1 SK]

• CSO: 4006/121

INDUSTRY

PRC UPDATES COLOR TV PRODUCTION EQUIPMENT

OW251453 Beijing XINHUA in English 1441 GMT 25 Oct 83

[Text] Beijing, October 25 (XINHUA)--Color television production equipment imported from the Federal Republic of Germany began operation today in the Beijing Television Plant, giving an added boost to China's rising video industry.

The Beijing plant imported advanced equipment from the Telefunken Company in January 1982 under a compensation trade contract.

Earlier in 1980, the plant signed another contract with the Germany company for transfer of technology on color tv sets production.

According to the chief of the Beijing TV Plant, Wang Kai, the newly added equipment "will help increase production, improve quality and lower the cost of our products."

The plant, one of the biggest television manufacturers in China, had three production lines, two made by a Chinese firm and the other imported from Japan. The plant now turns out "Peony" brand color and black-and-white sets.

A ceremony to mark the occasion was held this afternoon. Among those attending were Wang Yaoting, chairman of the China Council for the Promotion of International Trade; Jiang Zemin, minister of the electronics industry; Guenther Schoedel, ambassador of the Federal Republic of Germany to China; and Josef Stoffels, chairman of the board of directors of the Telefunken Company.

CSO: 4010/12

DOMESTIC TRADE

STRENGTHENING OF PRICING WORK STRESSED

Beijing JIAGE LILUN YU SHIJIAN in Chinese No 4, 20 Jul 83 pp 1-3

[Article by Cheng Zhiping [2052 5268 1627]: "Make Further Advances on the Already Good Situation and Strengthen Pricing Work"]

[Text] The national economic situation was excellent in 1982, as policies of continuing adjustment, restructuring, reorganization and improvement all obtained new successes. Agriculture produced bumper harvests. Coming off several consecutive years of increased production, grain and such cash crops as cotton, oil crops, sugar and leaf tea increased again at high rates. State procurements of such farm produce and sideline products as grain, cotton, edible oil, and flue-cured tobacco were greater than in any previous year. Industry and communications continued to develop. Light industrial production went up steadily while heavy industrial production reversed the stagnation and decline of the last 2 years and grew at a fairly high rate. The rotation volumes of goods transported by rail, highway, shipping, civil aviation and other means all increased. Social retail volume of the vast majority of consumer goods on the market went up from last year, because supplies were never better in the past 20-odd years. A buyer's market in some light industrial goods and textile markets emerged, consumers had room to choose, and market places were basically stable. The retail price index rose 1.9 percent from last year, 2.1 percent in the cities and 1.7 percent in the countryside, a small increase compared to those of the last few years. Foreign trade continued to show a surplus. Urban and rural savings went up, and the people's lives improved somewhat in both the cities and the countryside. Revenues and expenditures were balanced in both public finance and credit. The reform of the economic system has achieved remarkable success.

The present price situation is also good, as is indicated in the following five areas. First, industrial and agricultural production continues to grow, as industrial production went up markedly in the first quarter. In particular, the situation in output of farm produce and in procurement is better. Second, the channels for urban-rural commodity circulation are clear as sales volume in the vast majority of commodities rose markedly in the first quarter. After textile prices were adjusted, sales volume in prewashed cotton blend rose sharply by 37.5 percent over the same period last year while that in cotton cloth declined 9.2 percent. Third, procurements of many agricultural products are increasing rather greatly. The vast majority of industrial raw materials

among them are in more abundant supply. Fourth, the buyer's market in some light industrial goods is still there, and stocks of many goods are on the rise. Fifth, market prices are basically stable while negotiated prices and country fair prices are also fairly stable. Last year's country fair trade prices were up somewhat in the countryside and down somewhat in the cities while the disparity between list prices and market prices was somewhat reduced.

We must continue to maintain and consolidate this fine tendency toward flourishing development of the national economy and toward basic stability in market prices. For this reason, we must also look at some new circumstances and problems appearing along with our progress. Some of these new circumstances do not favor price stability. One is that some increases in fixed-asset investment and consumption funds are too large and too fast, society's purchasing power might increase beyond the plan, and some commodities might be in short supply. A second is that after the enlargement of the scope for negotiated procurement and sale of farm produce, the proportion of negotiated prices in urban market prices has increased. This affects increases in price levels, and some nonstaple foods will go up somewhat in price. A third is that more than a few light industrial goods were priced lower last year to compete for sales, but this year not many varieties in the entire national market can be priced lower. A fourth is that heavy industrial production is on the rise after having declined, while raw and processed energy materials are in short supply. A fifth is that retail prices have been tightly controlled for more than 2 years, so that some commodities that need to be priced higher have accumulated. Price rises, covert and otherwise, are also occurring to some extent. After many enterprises adopted the contract responsibility system, the problem of demanded or actual price rises has been fairly prominent too. Therefore, we must certainly "divide one into two" in the current commodity price situation. We have to look at both favorable conditions (this is basic) and some unfavorable elements. As for basic price stability, we must be both fully confident and uncomplacent about achieving it.

In current pricing work, it is necessary to uphold the principle of the primacy of the planned economy and the subordination of market adjustment. With the prerequisite of continued maintenance of basic price stability in the market, we have to proceed realistically. We must restructure prices in a determined and orderly way, vigorously strengthen the ranks of pricing cadres, and raise pricing work to a new level so as to aid the restructuring of the economic system and the development of the four modernizations.

I. Continue to Maintain Basic Stability in Market Prices

The 12th CPC Congress made the following proposal: "With the prerequisite of maintaining basic price stability, let us, step by step, restructure the pricing system and price-control methods." Basic price stability conforms with China's conditions and suits the people's common aspiration. It is necessary for construction and has a direct bearing on restructuring. It is a policy that must be upheld over the long run. We must first resolutely stabilize the prices of important commodities affecting the national economy and the people's standard of living. Leadership must be strengthened in the cities, especially

large and medium cities and industrial and mining regions. Measures in many areas must be taken to ensure ample production and supplies of vegetables, meat and bean products at stable prices for the cities. In enlarging the range of negotiated prices of nonstaple foods supplied by cities, the principle of "self restraint" must be upheld. The prices of large-quantity heavy industrial goods must be controlled more strongly. A few market commodities must have their prices adjusted by stages and in groups. In a livelier economy, price inspection and control can only be strengthened, not weakened. We must continue to carry out the "Provisional Price Control Regulations," constantly sum up our practical experiences, and perfect them. Basically speaking, the key to price stability lies in constantly improving economic results in every firm in every industry. According to Marx's labor theory of value, price is the monetary manifestation of value, value is the social labor embodied and materialized in commodities, and the amount of value depends on the amount of socially necessary labor consumed. Improved economic results, perforce, mean using the smallest possible amounts of labor and material to produce larger quantities of socially necessary commodities. In short, this means smaller input and bigger output. This is not only the key to price stability and restructuring but is also the important guiding idea behind our organization of production and our construction.

II. Energetically Restructure Prices

Prices should be restructured according to the plan of the CPC Central Committee. The restructuring of the economic system must be done realistically, comprehensively, systematically, resolutely, methodically, and step by step under the right leadership. It must also undergo an orderly procession of tests by stages and in groups. So should price restructuring. Since the 3d Plenum, we have fought five rather big "campaigns" in prices. The first was to raise the procurement prices for farm products; the second was to raise the prices of eight kinds of nonstaple foods and related products; the third was to adjust the prices of coal and some heavy industrial products; the fourth was to adjust the prices of tobacco, alcohol, and prewashed cotton cloth; and the fifth was to make an overall adjustment of the prices of textile products. We call this restructuring contained in adjustment. These five campaigns for price adjustment really constituted five campaigns for price restructuring. Compared with future comprehensive and systematic price restructuring, however, this is only preliminary restructuring. We should note that we cannot progress without restructuring and that we definitely must have a feeling of urgency about price restructuring. But we also have to pay attention to two points: one, we must not handle the matter rashly, and two, we must not waver and stand still. Quite a lot of market price restructuring has been done in the past few years, namely, four of the five campaigns were to restructure market prices. From now on market price restructuring must turn toward focusing on heavy industrial products and in a few years progressively make fairly rational adjustments of the price relations between the mining, raw materials and processing industries in order to improve them markedly. The central point must be restructuring of heavy industrial commodity prices so as to arrange the restructuring of the entire price system. Price adjustments must definitely be both upward and downward. Some things will go up a little, others by much. Some will go down a little, others by much. This must be our

thought and knowledge. Planned price increases are ordered and must be put into effect. The same is true for planned price decreases. The result of restructuring will appear in costs as well as in an important sign in prices, i.e., the wages and commodity consumption contained in unit costs cannot increase. As long as this is done, our price restructuring will be easy to carry out. On the other hand, as soon as the prices of raw materials are adjusted upward, the commodities' "boat will go up when the river rises," and they will increase in price. We must restrain that chain reaction; we cannot lengthen it. By thus restructuring heavy industrial commodity prices, we will favor the impetus to enterprises to improve economic results and will possibly affect market prices in a somewhat small way.

Price restructuring is divided into two parts. The first is the restructuring of the price system. Examples of this are the few price adjustment "campaigns" of the past few years and this year's comprehensive adjustment of textile commodity prices. The second is the reform of the methods of price control. We should follow the principle of the primacy of the planned economy and the subordination of market adjustment and put the state's unified price-setting and the prices set by enterprises within the range stipulated by the state in the various correct relationships to country fair trade prices. Thus the prices of principal commodities will be controlled, and the prices of small-quantity goods will be under less control. Commodities whose prices are suitable for floating should be allowed to do so in accordance with state regulations. As for differences in quality and price of regulated goods that should be appropriately expanded or clearly defined, we must heed state regulations, propose methods according to industry and product, obtain approval and carry out those methods. In sum, all the problems in the control of industrial and agricultural commodity prices must be investigated and studied well—we must know the facts fairly well, obtain approval, and solve the problems step by step.

III. Vigorously Strengthen the Building of Pricing Cadre Ranks

The improvement of pricing cadres' quality is one of the strategic plans in the entire restructuring of prices; work in this area must be emphasized.

Pricing departments at every level stress the building of thought, mainly the inculcation of communist thought; how to treat price restructuring correctly; and how to struggle against unhealthy tendencies. Pricing departments' organization and building must also be promoted vigorously. These departments are not only responsible for setting prices but also hold with other relevant departments the joint responsibility of controlling prices. For this reason, the number of cadres must increase appropriately in accordance with the need for their work while the quality of cadres must be vigorously enhanced. Pricing departments should draw up long-term plans for cadre training and get help from research departments and institutions of higher learning in training cadres conscientiously and well. They must organize every form of study, rotational training and refresher course in order to vigorously raise pricing cadres' political, theoretical, policy and professional understanding. They must work hard to make cadre ranks revolutionary, young, knowledgeable and specialized in order to meet the demands of increasingly onerous pricing work.

IV. Expand Study of Price Theory and Propaganda about Pricing Policy

Now that new circumstances and problems in pricing have emerged in an endless stream, we must understand the new circumstance, sum up our new experiences, and solve the new problems. This necessitates better theoretical study, better investigation and research, and better policy propaganda. Many of our present problems require comrades in theoretical research to join hands with comrades in practical work for the purpose of common research. For example, according to the theories of Marx, how do we stipulate the principles of socialist price-setting? How is the principle of the planned economy's primacy and market adjustment's subordination embodied in pricing? How many farm commodity prices should the state set? How many retail prices should the state set? How many heavy industrial commodity prices should the state set? How are we to use pricing leverage to promote the enhancement of economic results? How are we to learn from some pricing methods in other countries?

These questions all need to be studied in order to assimilate and utilize the good ideas of both theoretical and practical workers and for our own use--we will "choose and follow what is good and change what is bad." Some retail, service, and repair shops now have contract responsibility systems. What pricing measures should they take before being able to mobilize workers' and staff members' enthusiasm without affecting consumer interests and state revenue? Some comrades have said correctly that the state must get the biggest share, enterprises the medium share, and individuals the smallest share, but the consumer must not suffer. We must consider a number of aspects to restructure prices well. Theoretical and practical workers must combine to study these problems well.

Propaganda about pricing policy is a vulnerable point. During this year's adjustment of textile prices, Beijing Municipality invited members of the National People's Congress and the Chinese People's Political Consultative Conference to an informal discussion. They all pointed out that pricing policy is inadequate in that it has propaganda only at the time of price adjustments when it must have frequent explanations through propaganda. We must rely on specialists, scholars and teachers to write more articles for this purpose. Of course, comrades doing pricing work must also write more articles. First, they should publicize the relationship between basic price stability and rational adjustment. Second, they should publicize the relationship between enhanced economic results and price restructuring. Third, they should publicize the relationship between a lively economy and essential price controls that must grow stronger as the economy grows livelier. Written works must differentiate among various objects--as Chairman Mao said, seek truth from facts and have a definite object in view. Written propaganda for consumers, managers of industrial and commercial enterprises, and price cadres must be direct and persuasive. We definitely must pay attention to working hard to do good pricing propaganda so as to explain the party's pricing policy clearly and correctly to the broad masses of the cadres and the people. We have to rely on these masses for that policy's comprehensive implementation, unanimity from top to bottom, and hard work together in order to make a breakthrough in pricing work.

GENERAL

ENERGY PROBLEM FACING SHANGHAI ECONOMIC ZONE DISCUSSED

Hangzhou ZHEJIANG RIBAO in Chinese 22 Jul 83 p 2

[Article by Jin Shixi [6855 1102 1585] and Wang Ren [3769 0083]: "A Discussion and Analysis of the Energy Problem Facing the Shanghai Economic Zone"]

[Text] The Shanghai economic zone, which is the nation's fastest growing economic zone, is now beset by the most serious energy shortage. How to draw up a successful plan to solve this energy problem effectively will have a very significant role to play in developing this economic zone at a high speed and in realizing the objective of the strategy for the development of the national economy.

Its low capability for energy self-sufficiency has forced its two provinces and one municipality to import a large quantity of coal and petroleum every year. In view of this, a reliable energy guarantee for the development of the Shanghai economic zone is nothing less than the implementation of the policy of equally emphasizing energy development and conservation, a policy that is now more needed than ever. Three approaches to this problem can be specified as follows:

First, the economic structure should be streamlined, energy-conservation-oriented products should be developed, enterprises manufacturing them should be expanded, the responsibility for their production and assembly should be reasonably divided, and maximum efforts should be made to raise the energy utilization rate.

The relationship of the economic structure to its energy consumption is one that commands our close attention. Various foreign countries have described the approach to conserve energy by means of streamlining their economic structures as a form of structural energy conservation. The Shanghai economic zone is an energy-importing area where the light textile, electronic and handicraft industries are thriving. There are also in this economic zone such densely populated cities as Shanghai, Suzhou and Hangzhou with high tourist attractions. In view of this, measures must be taken to increase proportionally the number of the energy-saving but labor- and technology-concentrated industries such as the light textile industry, and to restrict and control the development of industries with high energy consumption. A primary task facing this economic zone is to focus attention on

streamlining the productive structure of four major energy-consuming industries, namely, chemical, metallurgical, building materials and power industries, and to follow the establishment of some large-scale chemical fertilizer plants in this economic zone with a plan to close down, suspend, merge and transform, stage by stage and group by group, a number of small energy-consuming, unprofitable, and unreasonably located nitrogen fertilizer plants. It seems inappropriate to follow the construction of the Baoshan Steel Mill with the construction of any other steel and iron plants in this economic zone at a time when it should focus attention on developing and processing a variety of most up-to-date, high-quality, and most sophisticated products, and on shifting the manufacturing of some of "its brand-name goods" to sites out of this economic zone. As a matter of principle, this economic zone should produce them to satisfy local needs and should refrain from doing anything to export energy in disguised form. The same is true of building materials and power industries. In short, industrialization should be planned in ways which save energy; under the guidance of the ideology aimed at "coordinating all activities of the nation like pieces in a chess game," this economic zone should make efforts to improve its internal and external coordination by encouraging and helping energy-abundant areas outside this economic zone to provide it with raw materials, primary and semifinished products so that it can cut down energy imports and energy consumption by transportation.

Second, it should strive to achieve the energy-conservation objective through the strengthening of its management, and renovation and technical transformation of equipment.

Foreign countries call these two approaches energy conservation by means of management and technological process. Energy management work consists mainly of two aspects. One is of thoroughly transforming the current multiheaded and widely scattered energy control agencies and systems into a centralized management system under which a series of scientific energy control methods in favor of the development of this economic zone can be formulated to tighten a well-planned control over energy consumption and enhance the multipurpose and effective utilization of energy. The other is of stressing the need for enterprises to establish and improve a variety of surveying and testing measures, to exercise control over the entire process of energy purchase, storage, transport and consumption, and to eliminate numerous wasteful practices through the development of the mass energy-conservation movement. In the future, each enterprise capable of consuming more than 10,000 tons of coal a year must concentrate efforts on equipping itself with instruments and apparatuses for measurement of water, power, gas and oil consumption, and gradually improving its energy-conservation incentive system with the aim of encouraging workers to save energy. Meanwhile, active efforts must be made to regulate and renovate highly energy-consuming equipment, develop, apply and promote energy-saving technology, materials, equipment and technological processes, put residual heat to good use, and establish central heating systems where conditions permit. In big and medium cities, measures must be taken to organize production technology centers specializing in iron casting, forging, heat treatment, electroplating and bleaching to go all out to tap the potential of their existing equipment, and to organize specialized and centralized production as part of an effort to save energy and improve the quality of their products.

Third, new sources of energy should be vigorously developed in a way appropriate to the local conditions, and efforts must be made to step up the flow of energy resources from other provinces in this economic zone. A review of conditions in the Shanghai economic zone shows that nuclear power is undoubtedly one of the important interim energy sources that can be tapped to alleviate its energy shortages. Now under construction in Haiyan County, Zhejiang, is the Qinshan Nuclear Power Plant with a capacity of 300,000 KW. According to an initial plan, another nuclear power station with a capacity of 1.8 million KW will be built in the east China region in the early 1990's. It will be followed by several more before the end of this century. In other words, by then, an initial foundation can be laid for this economic zone to develop the nuclear power industry.

The east China region, particularly Zhejiang Province, abounds in hydroelectric power resources. Developing hydroelectric power resources is also one of effective measures to relieve power shortages. Counties, communes, and brigades must be fully encouraged to develop small hydroelectric power stations in the countryside in a way appropriate to local conditions as part of an effort to boost rural self-sufficiency in power supply, and to relieve the larger power transmission network of burdens. It seems advisable to develop some medium and larger hydroelectric power stations along the abundant water resources of the the Oujiang River in Zhejiang Province, where, before the end of 1990, a five-ladder power station with installed capacity of 1.3 million KW can be completed to play a positive role in relieving the peak load of the east China power transmission network.

Favorable conditions also exist for developing methane gas in this economic zone. At present, methane gas accounts for only a small percentage of energy consumed by rural residents. In the future, in developing methane-generating pits, stress must be laid on improving technical skills and quality, and ways must be devised to raise their utilization role, and to prevent the construction of methane-generating pits which are neither efficient nor workable. Solar energy resources are also abundant in this economic zone. Also rich are energy resources generated by wind and tide along its coast and around its lakes. These inexhaustible and reproductive energy resources can be vigorously developed and their utilization can be promoted in a way appropriate to local conditions, by means of strengthening scientific research on their economic values, and as a result of exemplary experiments. Another problem that deserves our attention in the course of seeking relief for the energy shortage of the Shanghai economic zone is how to step up the exploration and development of oilfields, and gas wells in the East China Sea. At present, initially armed with physical oceanic prospecting and drilling equipment, our country can rely mainly on our domestic resources to step up this work through the well-controlled import of foreign capital and technical cooperation.

In addition to actively developing energy conservation work and vigorously tapping new sources of energy, we must still continue our vigorous efforts to step up the flow of energy resources from other provinces to this economic zone. However, the influx of coal in large quantities has brought new pressures to bear on the already congested traffic and transportation facilities while its excessive consumption is bound to have an adverse effect

on environment, pollution, silkworm breeding and the growth of fruits and other cash crops. These are problems that command our close attention.

The energy problem is so crucial that it may spell success or failure in the development of the Shanghai economic zone. Only by formulating a feasible plan for effectively and properly solving this problem through a thorough and meticulous investigation and study can we open a new prospect for the development of the economy around the Yangtze delta.

9574

CSU: 4006/750

THAI PRINCE HAILS TAIWAN AGRICULTURAL ASSISTANCE

OW031307 Taipei CNA in English 1002 GMT 3 Nov 83

[Text] Taipei, 3 Nov (CNA)--With advanced know-how and expertise, the Republic of China's agricultural technical mission stationed in the Kingdom of Thailand has earned the friendship and respect of the Thai royal family, the government and the people.

Prince Phisadet Ratchani, a member of the Thai royal family, made the statement in a recent interview with the Central News Agency. Prince Phisadet and his wife arrived in Taipei October 27 for an 11-day visit at the invitation of the Vocational Assistance Commission for Retired Servicemen. (VACRS).

In the interview, Prince Phisadet said, although Thailand and the Republic of China [ROC] severed diplomatic relations in 1975, the two countries' bilateral trade, cultural exchanges and agricultural cooperation, amid sometimes difficult conditions, have been growing steadily and substantially. In this regard, Prince Phisadet especially lauded the ROC agricultural mission, jointly organized by VACRS and the Committee for International Technical Cooperation, for its outstanding contributions to the development of substantive Sino-Thai ties during the past eight years of adversity.

According to Prince Phisadet, agricultural cooperation between Thailand and the ROC has a history dating back to 1973 when King Phumiphon Adundet started implementing the grand northern Thailand development plan. The plan, directed by the Thai royal family, was aimed at promoting ways to raise agricultural production and living standards in the mountainous areas of the country's north.

Upon learning of the project, the then Chinese ambassador to Thailand, Gen. Ma Chi-chuang, now secretary general to the president, initiated a proposal that the ROC dispatch a team of agricultural technicians to render technical assistance and other services to Thai farmers. The idea was hailed by both the Chinese and the Thai Governments. The ROC mission thus departed from Taiwan later to help get the 12-year development plan started.

Prince Phisadet admitted that before the development was carried out, the northern part of Thailand was covered with forest and ant hills. But now, after 11 years

at hard work by both Chinese agricultural specialists and local Thai farmers, the wilderness has been turned into fertile farmland in which new varieties of fruits and vegetables are being grown. The successful project has greatly improved farmers' incomes and their living standards, thereby winning the friendship and admiration of the Thai Government and people for the Chinese mission and laying a solid foundation for further growth of Sino-Thai relations and cooperation, Prince Phisadet related.

It's not so easy to open up a barren land like northern Thailand. The ROC agronomists with their brilliant talent and resolute determination, however, have miraculously overcome a great number of ordeals in the process of developing the area. Some mission members have gained special respect and admiration for their outstanding performance, Prince Phisadet said, adding that among them is Soong Ching-yun, director of the Fushoushan Farm near scenic Lishan in central Taiwan.

An expert on fruit cultivation, Soong visits mountainous northern Thailand several times every year. With his specialist know-how and expertise, Soong has helped solve many difficult problems, earning critical acclaim from local agricultural officials and farmers. Now, "Para Soong" has become a household name in the area, Prince Phisadet said, explaining that in his country people call such respected men "papa." He added, even King Phumiphon holds high esteem for Soong and calls him by that nickname.

Prince Phisadet further related that Chinese agricultural technicians have deeply impressed the Thai people with their diligence, courage and professional knowledge during the past 11 years, and they highly appreciate the valuable assistance the ROC mission has extended in the development of northern Thailand.

At the conclusion of the interview, Prince Phisadet reiterated that King Phumiphon treasures the friendship the ROC has shown to his country and hopes to further expand mutual cooperation in the years to come.

Looking on his current visit to this country, Prince Phisadet said he likes to learn something from the ROC's success story in creating an economic miracle during the past three decades. He added that he believes the ROC's experiences can inspire his people in many ways to build Thailand into a more advanced country.

TAIWAN

TAIWAN POSTS 9-PERCENT EXPORT GROWTH IN JANUARY-AUGUST

OW021409 Taipei CNA in English 1346 GMT 2 Nov 83

[Text] Taipei, 2 Nov (CNA)--The Republic of China's export growth in the first eight months of this year registered at 9 percent, the highest in the world during the period, according to V.C. Siew, director-general of the Board of Foreign Trade.

Siew said in a report to the Legislative Yuan that from January through September the ROC enjoyed a trade surplus of US dol'ar 4 billion. It is estimated that this year's total trade surplus may reach US dollar 6 billion, setting a new record for this nation.

Siew also pointed out that the ROC's exports turned to the better during these nine months while imports were still becoming less and [word indistinct] willingness of people at home and abroad was also low and continuing to decline.

He added that the increasing amount of foreign exchange reserves has become a pressure for the monetary market here and led to an unbalanced development of the nation's foreign trade.

The over-concentration on the U.S. market by local exporters will have adverse effect on the development of foreign trade, Siew said.

The trade official urges local traders to diversify overseas market. Local manufacturing industries are also suggested to introduce advanced technologies and equipment so as to improve the export competitiveness of their products.

CSO: 4020/29

SINO-U.S. FUND BUDGETED FOR 1984 PROJECTS

OW021349 Taipei CNA in English 1332 GMT 2 Nov 83

[Text] Taipei, 2 Nov (CNA)--Taipower's third nuclear power plant and the optical fibers transmission system run by the Directorate General of Telecommunications will benefit as the top priorities of the Sino-U.S. fund budgeted for fiscal 1984.

According to the budget plan drawn up by the Council for Economic Planning and Development, the Sino-U.S. economic and social development fund will appropriate NTdollar 2.1 billion (about U.S. dollar 52.5 million) in fiscal 1984 to assist the nation's various development projects.

Of the total, NT dollar 400 million will be allocated to finance the engineering of the power generation plant of the third nuclear power plant which is one of the 12 national construction projects now in progress.

Another NT dollar 250 million will be budgeted to the Directorate General of the Telecommunications for the expansion of optical fibers transmission systems.

Other fund allocations are:

--Metropolitan development and environmental sanitary improvement:
NT dollar 236 million;

--New industrial zone development: NT dollar 150 million;

--Loans to private enterprises: NT dollar 280 million;

--Manpower cultivation: NT dollar 364 million.

The 1984 Sino-U.S. fund, the plan indicates, will also help substantially the nation's agricultural development. NT dollar 420 million or 20 percent of the total annual fund will be allocated to the Council for Agricultural Planning and Development in 1984 for agricultural development.

CSO: 4020/29

TAIWAN

STEEL INDUSTRY TO COUNTER NEW U.S. TAX

OW291219 Taipei CNA in English 0252 GMT 29 Oct 83

[Text] Taipei, 29 Oct (CNA)--Manufacturers of welded carbon steel pipes and tubes of the Republic of China [ROC] will appeal to the U.S. Department of Commerce regarding its October 25 decision to collect countervailing duty on certain steel pipes from the ROC.

The U.S. Department of Commerce on October 25 made a preliminary determination to tax countervailing duty equal to 60.8 percent of the value of each shipment of welded carbon steel pipes and tubes from 0.375 inch to 4.5 inches in outer diameter from the Republic of China.

The steel pipe section of the Taiwan Steel and Iron Industries Association met Thursday to study the adverse effect of the preliminary determination, and to consider countermeasures.

Steel pipe manufacturers reached a resolution to send representatives to negotiate directly with the U.S. Commerce Department. A meeting will be held on October 29 to be participated in by manufacturers, lawyers and auditors to review the materials to be presented to the commerce department.

Local steel pipe makers attributed the U.S. Commerce Department's decision to the negligence of the American attorney who failed to present regated information for reference to the department before the deadline on October 14. They believe the decision was made solely based on the materials presented by American steel pipe manufacturers.

They regarded it as unfair that the U.S. Commerce Department directed the U.S. Customs Service to suspend customs clearance procedures for shipments of the products from the ROC, unless cash or bond in an amount equal to 60.8 percent of the value of each shipment is deposited.

Similar deposit is required for steel pipes from the Republic of Korea, but the amount is only 0.83 percent of the value of each shipment.

Yang Chiu-yueh, vice president of the Kao Hsing Chang Iron and Steel Corporation, said that in 1982 U.S. imports of steel pipes and tubes from the ROC amounted to U.S. \$35 million, while South Korea exported U.S.\$110 million worth of the products to the same marketplace.

Local steel pipe manufacturers will request the Coordination Council for North American Affairs and the Board of Foreign Trade to provide assistance in negotiating with the U.S. trade authorities, who will make a final determination on this case next January.

They wish that the U.S. Commerce Department will lower the duty rate from the current 60.8 percent to between 5 and 12 percent.

A representative from the U.S. Commerce Department is expected to come here in November to evaluate the information and statistics contained in the petition by the American steel industry. A final determination by the Commerce Department on the case will be made on January 9 next year.

CSO: 4020/29

CLOSE-UP OF ZHUHAI SPECIAL ECONOMIC ZONE

Hong Kong WEN WEI PO in Chinese 12 Sep 83 p 16

[Article by Wu Jianmin [0702 0256 3046]: "The Zhuhai Special Economic Zone, Its Construction and Its Future"]

[Text] The first time that China proposed experimenting with special economic zones in the Fujian-Guangdong area was in July 1977. At that time, it was also decided to prepare a special economic zone in the area of Zhuhai, which had just been made into a municipality under the jurisdiction of the provincial government. The emergence of the idea of the Zhuhai Special Economic Zone was truly China's first attempt to open to the outside world.

Preparations for the Zhuhai Special Economic Zone really did not begin until the end of 1979. Originally, we only referred to foreign "export processing zones" as a model. At that time, the area under consideration was basically an undeveloped strip of seacoast. But after two or three years of practice and experimentation, we began to realize that, within this special economic zone with an area of 14.1 square kilometers, we would introduce and manage industry, agriculture, commerce, tourism, residence, and various kinds of trade, and that it would be called a comprehensive special economic zone.

Now the Zhuhai Special Economic Zone already has a port, an airport, and wide and smooth streets, and it has also begun to build factories, guesthouses, residences and other buildings run as Chinese-foreign joint ventures or cooperative ventures. As a special arrangement for Chinese economic and technological cooperation with foreigners, under the direction of the central authorities, the Zhuhai Special Economic Zone has made great efforts to attract foreign capital, to introduce advanced technology and equipment and talent from abroad, to learn scientific management methods, and to associate with those from abroad, Hong Kong, Macao and elsewhere. This first phase struck a good note.

Favorable Conditions for the Development of the Special Economic Zone

There are many conditions favorable to the development of the Zhuhai Special Economic Zone. In subjective terms, the policy decision of the central authorities is correct. The provinces and the municipalities have complete faith in it, and the vast numbers of cadres and people engaged in construction of the

special economic zone are extremely enthusiastic, and their spirit is full of vitality. In terms of objective conditions, Zhuhai is well-situated geographically. It has more than 7,000 square kilometers of sea area (including Doumen County), and more than 100 islands. There is great potential for developing the islands, utilizing ocean resources, breeding produce in the bay, developing marine transportation, and exploiting offshore oil. Zhuhai is also an especially scenic spot on the shore of the South China Sea. Bound by mountains and sea, with the blue surf, white breakers and unusually jagged rocks, and wind rustling through the pines and bamboos, it has long been a world-renowned tourist resort. The special economic zone is situated in the coastal area to the southwest of the City of Zhuhai. As it is linked in the east by water route to Hong Kong, a distance of 36 nautical miles, and linked in the south by land to Macao via Gongbei, it is an important Chinese port. There are special economic, cultural and social relations between Zhuhai and Hong Kong and Macao. This indeed provides a rather good starting point for construction of the special economic zone and the establishment of an initiative toward the investment markets and the international commodity markets of the Hong Kong-Asia Pacific economic system. Moreover, the special economic zone lies on the fertile and populous Zhujiang Delta with Guangzhou at its center, and nearby are the soon to be exploited South China Sea oil fields at the basin of the Zhujiang estuary. With such an investment environment, it will no doubt be very attractive to foreign capital.

Although the Zhuhai Special Economic Zone has only been under preparation for three years, business representatives from more than ten countries and regions including the United States, Britain, Japan, Italy, West Germany, Belgium, Australia, the Philippines, Malaysia, Hong Kong and Macao have come to discuss investment projects. The traveling businessmen who have come to invest were once from a few small enterprises and businesses, but now they are from large enterprises, large consortia, and transnational corporations. The amount of individual investment has grown from a few hundred thousand US dollars to more than US \$100 million. Up to the present, the scope of the 37 projects which have been introduced includes several types of processing industries, harbor transportation, petroleum products, tourism, and real estate. The contracted amount of planned investment is nearly US \$1.2 billion, and foreign capital which has already been invested amounts to US \$50 million.

Equality and Mutual Benefit Attract Foreign Capital

The introduction of projects has been smooth because the special economic zone and foreign businessmen sincerely cooperate on a basis of equality and mutual benefit. Some projects have already finished construction and gone into operation, and have gotten new experience in management and administration. Both sides of a joint investment project have achieved rather satisfying economic results. For example, after the passenger traffic wharf of the Jiuzhou Port went into use, it started a passenger line from Zhuhai to Hong Kong, and then from Zhuhai to Shenzhen. In the past year, more than a million visitors from home and abroad have been received. The total business volume of the port joint ventures including the Sanlian Company, the Hong Kong-China Feiyi Shipping Company and the Zhuqi Shipping Company has amounted to more than RMB 27 million, which has generated foreign exchange earnings for the country.

To take another example, the Shijingshan Tourist Center not only made good profits financially, but also explored practical management methods appropriate for China and trained a group of rather highly qualified managers. Besides, there are many other foreign investment projects under construction, such as the Shihuashan Tourist Resort, the Gongbei Guesthouse, the Yinhai New Villa, a petroleum products supply center, and an edible mushroom processing factory. Construction is being sped up, and next spring these projects will go into operation one after another. US \$1 billion has been put up by the Hong Kong Jiahao Company, Ltd. for joint development with the special economic zone of the Xiawan Industrial Park and the Yinkeng Tourist Center, occupying almost four square kilometers. It has already entered the planning and surveying stage, and the first phase of construction may begin this year. The Xiawan Industrial Park plans to introduce mainly building material industries, including glass, building ceramics, sanitation instruments, metal structure parts and aluminum fittings. The Yinkeng multipurpose tourism and vacation center will be a good place to vacation and rest for technicians and staff of the foreign companies which are exploiting the oil fields in the South China Sea.

Creating Favorable Conditions For Investment

In order to provide investors with a good place for investment and good management conditions, the Zhuhai Special Economic Zone has worked to develop land and to construct infrastructure projects since it was established. Projects based on the "five opens and one level" (open to traffic, having electricity and running water, open to navigation, and open to telecommunications, and leveling the ground) as a focal point have been undertaken on a large scale. So far, the special economic zone has spent RMB 50 million on these infrastructure projects. The passenger traffic wharf of the Jiuzhou Port finished construction last September and is already in use. The freight transport wharf which includes a container facility is currently stepping up construction. It is estimated that this year the wharf will be open to marine traffic with Hong Kong, and passenger and freight lines with other places in China will be opened. To suit the exploitation of the South China Sea oil fields, the possibility of building a special wharf for oil supply is now under discussion.

The special economic zone's highway network is also beginning to take shape. All together, there are eight newly built or extended main roads which total 20 kilometers in length. Gongbei, which borders on Macao, is a major port, and can link up transportation with various places in the province. At present, the volume of passenger traffic is more than 5.4 million people per year. In order to develop the special economic zone's transportation facilities, the United Motor Transport Company has been established to handle passenger traffic and car rental in China and the Macao area. In the meantime, preparatory work for the construction of an expressway linking Hong Kong, Shenzhen, Guangzhou, Zhuhai, and Macao has been discussed. In addition, the special economic zone seaport, funded by the head office of the Civil Aviation Administration of China (CAAC), is now under construction, and it is estimated that at the end of this year it will first open to air traffic with Guangzhou, and afterwards open up other routes one by one. The capacity to provide water and electricity has also greatly improved. The water supply can already basically satisfy demand. The Gongbei Reservoir, with a daily water supply volume of 30,000 tons

the finished construction and is in operation. The electricity used by the special economic zone comes mainly from the large Guangdong electrical network, a reliable power source. At present, a 22,000 volt transformer station in the city of Zhuhai is also finished construction. With respect to factory buildings, the special economic zone is in the process of constructing industrial buildings by stages and in groups, for sale and for rent. The first group under construction is seven industrial buildings from five to eight stories high, with a total floor space of more than 49,000 square meters. At the beginning of next year, part will be completed and made available.

According to China's guiding principle of building special economic zones, the orientation in the development of the Zhuhai Special Economic Zone is to put special emphasis on industry and to give an impetus to commerce, tourism, real-estate construction, and agricultural projects for raising fresh flowers, top grade vegetables, cows, and so on, in order to gradually build an economically integrated, developed zone. This guiding principle is already strongly manifested in the overall plan for the Zhuhai Special Economic Zone.

In its overall layout, in accordance with the special economic zone's natural conditions and its topographical configurations, historical circumstances, and the layout of its road system, and having taken into consideration the investment intentions of foreign businessmen which are influenced by international markets, the Zhuhai Special Economic Zone can roughly be divided into six small land-use districts: 1) the Gongbei District, which has become the administrative, cultural, banking and commercial center of the special economic zone because of its distinctiveness as a port open to the outside world; 2) the Shimen District, an industrial district focusing mainly on the building materials industry; 3) the Delling District, mainly light industry, textiles, and electronics industries, and also the scientific research, cultural, and sports center of the special economic zone; 4) the Guda District, mainly tourism, commerce, and foreign trade. With the Zhuhai Guesthouse, the Zhuhai Hotel, and other tourist facilities, as well as a large shopping area, it will become another bustling center of the special economic zone; 5) the Heliport District, mainly a distributing center for transportation (Zhuhai Port and the heliport); 6) the Yinkeng District, with its comprehensive tourist center and high class residential area. Judging from the results of construction, it is possible that there

the land use of the special economic zone used for urban construction is only 10 percent of the total. The tentative outline for the special economic zone's land use is as follows: industry with 20 percent; tourism with 18 percent; residences with 12 percent; agricultural land, roads and public squares with 18 percent; public buildings with 10 percent; transportation and ports with 5 percent; and agriculture with 5 percent.

Plans for Projects To Be Introduced

Since the conditions of an environment for investment have taken shape, the conditions for attracting in industry and technology are already present. The Zhuhai Special Economic Zone is actively developing industry by adopting

the policy of giving priority to attracting foreign capital; of combining the introduction of foreign advanced technology with the strengthening of internal coordination; and of integrating large, medium, and small enterprises at home. Industrial projects which are planned to be introduced in the near future are mainly of the five following kinds:

1. Building material industries: including glass, building ceramics, aluminum fittings, lumber, metal structure parts, door and window fittings, high quality furniture, sanitation instruments, etc.
2. Electronics industries: mainly introducing advanced technology, crucial equipment and important components for producing small computers, miniature recorders, stereo records, video tapes, etc.
3. Light industry, textiles, and household chemical industries: mainly producing high quality woollens, cotton and linen fabrics, clothes made of imitation leather, household appliances, articles for tourists, and articles used in printing and packaging, etc.
4. Food processing industries: mainly producing beer and various kinds of beverages, soft packaging, etc.
5. Machine-building industries and support projects: including automobile maintenance, hardware parts, metal pipes, and small electric tools, etc.

We especially welcome foreign industrialists and businessmen, overseas Chinese, our compatriots in Hong Kong and Macao, and our compatriots in Taiwan to choose various arrangements, including cooperative ventures, joint ventures, processing with customers' materials, processing with supplied samples, assembling with supplied parts, compensation trade, and ventures with exclusively foreign capital by coming to the special economic zone to invest and set up factories and to manage enterprises. We also welcome foreign businessmen to come and negotiate the kinds of plants and enterprises that they would like to establish, and to utilize various flexible forms [of foreign direct investment] to develop cooperative economic activities. We will certainly grant preferential treatment and protect their assets, due profits, and other legitimate rights and interests in accordance with the law.

According to the "Regulations Regarding Special Economic Zones in Guangdong Province" approved by [the central government] and related rules and regulations, foreign businessmen investing in the Zhuhai Special Economic Zone may get guarantees and preferential treatment in several respects. With respect to taxes, equipment, spare parts, new and semi-finished materials, delivery vehicles, and other means of production which must be imported by enterprises in the special economic zone are exempt from import duties. With regard to articles for daily use which must be imported, all are exempt from import duties, except for cigarettes and alcohol which are taxed at half the lowest rate, and a few other articles which are taxed according to regulations. Finished products or semi-finished products of special economic zone enterprises which are sold abroad are exempt from export duties. The income tax rate for special economic zone enterprises is 15 percent, and all are exempt from local surtaxes. Enterprises

with investments of more than US \$5 million, or high technology enterprises with a rather long-term turnover of funds, are also given preferential treatment. They can be divided into those which have taxes reduced by 20 to 30 percent, and those which are exempt from taxes for one to three years. Businessmen who reinvest their profits in the special economic zone for more than a five-year period may apply for a reduction of the income tax on that part which is reinvested.

Regarding land use, the special economic zone can completely provide the land needed by an investor. The criteria for land use fees are determined according to different regional conditions, different trades, and duration of use. The standard charges each year for each square meter are (in Renminbi): industrial land use, 6-30 yuan; commercial land use 50-100 yuan; land used for the storage of commodities and residence, 20-60 yuan; land used for building tourists' accommodations, 40-100 yuan; and fees for land used for planting, animal husbandry, and aquatics are each decided through consultation. Since the Zhuhai Special Economic Zone is still in the initial stage of construction, infrastructure projects are still in progress, and management and production conditions must still be steadily improved, the initial figures for land use fees listed above might be considered for reduction by 40 to 50 percent between 1983 and 1985. By using barren slopes, hills, swamps and other undeveloped land, enterprises may be exempted from land use fees for one to five years depending on different uses.

Regarding labor management, special economic zone enterprises may employ foreigners, overseas Chinese, and people from Hong Kong and Macao as staff members and workers to assume technical management positions. When employing Chinese workers and staff, the enterprises may get recommendations from the special economic zone labor service company, or may invite applications and hire the most qualified based on competitive exams. If workers or staff violate the rules and regulations of the enterprise, and so cause bad consequences, they may, according to the seriousness of the circumstances, receive a warning, record a demerit, get a cut in pay, or even get fired. An enterprise may choose to remunerate by piecework, by the hour or by the day according to the requirements of management. In addition, the wages in special economic zone enterprises may in general be slightly lower than the wages in similar enterprises in Hong Kong.

Running special economic zones is one of China's newly emerging things. We still do not have enough experience, and our economic legislation must still be steadily improved. According to the changing situation in international markets and the actual conditions of the special economic zone, it is necessary to cooperate sincerely in order to further achieve a basis of equality and mutual benefit. At present, we are studying the measures for giving further preferential economic treatment, including extending the duration of tax exemptions and tax reductions, lowering land use fees and rationally solving problems regarding the domestic sale of enterprise products in order to help foreign investors get even greater profits.

With China's continuously developing political and economic situation, and continual broadening economic and technical cooperation with the outside

world, and especially with the large scale development of the South China Sea oil fields, and the gradual formation of the Zhujiang Delta Economic Region with Guangzhou as its central city, we can be sure that the conditions mentioned above will vigorously advance the development of the Zhuhai Special Economic Zone and indeed reveal its broad prospects.

In the past three years, the Zhuhai Special Economic Zone has gotten the support and friendly cooperation of foreign businessmen, and overseas Chinese, and compatriots in Hong Kong and Macao who are enthusiastic about building their motherland. We express our sincere thanks for this. And at the same time, we also hope that this kind of cooperation continues to develop smoothly for a long time to come.

5 September 1983

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